SUGAR

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SUGAR

A Case Study of Government Control

By

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To

B. H. D.

AUTHOR'S NOTE

This book was written in its entirety before the Presidential election of 1936. Whatever may be the other implications of that overwhelming victory, it is reasonably certain that it points to one thing: the Federal Government, through aids and regulations, will increase and not diminish its powers affecting the private economic affairs of the nation. After the present boom in business and agriculture has subsided, the current "era of good feeling" in business-political circles will be over. There will be a renewal of the controversy as to whether or not the central government can effectively plan for and direct the broad lines along which industry may advance. This is particularly true if industry fails to maintain a proper economic balance under private initiative and unfettered competition. Our long and complicated experience with sugar, under which a billion-dollar industry was assisted liberally by a tariff and then, under the New Deal, assisted further by rigorous Federal regulation, may throw some light upon certain aspects of this difficult problem.

Two things have made the writing of this book possible, or even inevitable. The first is my experience as Chief of the Sugar Section of the Agricultural Adjustment Administration in the years 1934 and 1935 when the administration of the Sugar Act was in its initial stages. Through visits to every area producing sugar for the American market, excepting the Philippine Islands, I learned at first hand some of the effects of bad economic planning by government

which arose from the tariff, and some of the difficulties which faced the government in its attempt to rectify those errors through the control of production, marketing and price. Secondly, during my experience as a professor of subjects pertaining to business and government in the Harvard Graduate School of Business Administration, (1935–1936), the "Case of Sugar" presented an excellent illustration of some of the issues which arise when the central government attempts to formulate and administer plans for the assistance and regulation of industry. The point of view presented in this book, of course, is my own and does not reflect the opinions of persons connected with the Government or the Business School.

Representatives of every major area producing sugar for the United States market, including the refiners, have had the opportunity before publication to read the chapters pertaining to them, and I am grateful for the comments which they have made. It is obvious that in an objective analysis of a subject as controversial as sugar the divergent points of view expressed in those comments could not be entirely harmonized. Dr. Joshua Bernhardt, present Chief of the Sugar Section of the A.A.A., and Professor Paul Homan of Cornell University have read the manuscript, and it has been benefited by their criticisms. Mr. Myer Lynsky has done the exacting research underlying the construction of the income data found in Appendix 1, and Mr. Richmond Bingham of Harvard has constructed the chart. Finally, I am indebted to Miss Martha Eggleston of Radcliffe College and Miss Ruth Norton, Secretary of the Harvard Business Review, for performing the tedious work involved in the preparation of the manuscript and the reading of the proof.

J. E. D.

January, 1937.

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CHAPTER I

THE POINT OF VIEW

The United States, between the Civil War and the depression of 1929, grew from a relatively simple agricultural community into the outstanding industrial country in the world. This growth brought with it a long list of social problems and called forth expanding powers of the state and Federal governments over "private" economic affairs. In the national sphere, the railroad question and the establishment of the Interstate Commerce Commission, the fluctuations in the volume of bank credit and the inauguration of the Federal Reserve System, the growth of trusts and the enactment of our anti-trust laws, post-war difficulties in agriculture and the establishment of the Federal Farm Board are but a few of the economic questions which arose during the 64 years of America's most rapid growth. Of course, these chapters in economic history were not peculiar to our country. They unfolded in a somewhat similar form in most of the industrial countries throughout the world.

During this period, the modern and disruptive phenomenon of the business cycle came to be accepted as a normal part of the system of private enterprise and capitalistic production. However, after the depression of 1929, the duration and intensity of which had no previous parallel, there was a growing belief that the possible recurrence of such a depression necessitated plans for a more effective control over the economic machine. Which plans

were rational and which irrelevant and harmful became the subject of constant debate. Differences of opinion arose over whether these plans should be initiated by the central political authority, or whether they should be formulated and put into effect by business men with the government serving as a referee between labor, capital, agriculture, and the consumer. Regardless of the form that the new control should take, it was commonly, but vaguely, anticipated that the ravages of the great depression would demand a further enlargement of public control over industry.

After the inauguration of the Roosevelt Administration in 1933, there was an unprecedented expansion in Federal power over the daily work of the people. This enlarged power—which took the forms primarily of Federal aid, through loans or expenditures, and regulation of industry—was unprecedented in many ways. The volume of expenditures was enormous and the scope of such control was broad. The lines of expenditure and control were rapidly extended into new fields, hitherto untouched by the Federal government; for example, the direct regulation of agricultural production and the direct and indirect fixation of price. And lastly, the legislation was new in method. It provided an extensive delegation of legislative powers to the administrative branch of the government. In field after field Congress declared the existence of an emergency and directed administrative agencies to exercise one or more of the powers, as outlined in the legislation, to reconstruct "normal" economic conditions. Administrative agencies were empowered to promulgate orders and regulations which affected the livelihood of laborers, employed and unemployed, farmers, consumers, and business men. These powers, as set forth, have often been vague, overlapping, and contradictory both as to their purpose and as to their method of execution. The rapidity of the develop-

ment of the acts and their administrative agencies has made it extremely difficult for the public to understand their place, permanent or temporary, in our government system.

In addition to the rapidity of their development, some of the acts introduced a theory of government and economics entirely new to the American mind. That theory has never been given explicit expression except in its broadest outlines. Perhaps it cannot be characterized as a theory, but merely as a conviction which must remain vague and uncrystallized. Its point of emphasis has changed from time to time; but essentially it follows the statement set down by the Under-Secretary of Agriculture, Rexford G. Tugwell:

> The change [the new administration] involved in this was of major importance in the development of this country. It meant a shift from laissez faire to positive effort. It implied an effort by the community through its government to restore exchangeability by positive action. It placed directly on the shoulders of the new administration the responsibility for bringing about recovery from one of the deepest depressions this country has ever known.[1]

Thus, extensions of the powers of the Federal government over matters of economic concern before 1929 were intended in part to prohibit certain evils which had appeared as corollaries of a free competitive system; New Deal legislation, on the other hand, was based in part upon the assumption that the balance-wheel of the capitalistic system in America, competitive enterprise for profit, had failed to maintain equilibrium in that system, and that, in consequence, the government had to assume the positive responsibility of obtaining "this better planned society we are entering upon now."[2]

[1] *The Battle for Democracy,* Columbia University Press, New York, 1935, page 80.
[2] *Ibid.,* page 260.

The legislative acts, which set the stage for the dramatic entrance of the Federal government into the realm of business, were passed in a time of great national distress, and these acts were accepted generally by the business community with some fear, but without much debate. Now, however, impassioned discussion is heard of the wisdom, the necessity, and the propriety of this legislation. Overwhelmingly, business men appear to be of the opinion that the broad extension of the Federal power does violence to the principle that government should stay within its "natural" sphere and not enter upon activities foreign to its purpose.

The bill of criticism is not particularized but is stated usually in general terms. Most opponents of the new legislation concur in the view that if there are weaknesses in the economic system, those weaknesses can and should be mended by private enterprise. And above all, the government should not attempt to rectify weaknesses which do not exist. This has been stated by the National Association of Manufacturers in its "Platform for American Industry" as follows:

> This American system has not failed. It has not collapsed. It did not break down in depression because of weaknesses or evils inherent in the system.
>
> The obstruction of recovery and the continuation of nation-wide distress are due to policies that have destroyed the guarantees on which American business depends . . . have attempted to substitute government enterprise for the free enterprise of private citizens. . . .[3]

Critics go on to point out that the government is made up of men untrained in business; why should these men be substituted for trained business leaders? It is contended that the government personnel has neither the ability to

[3] *New York Times,* December 6, 1935, page 22.

formulate an industrial plan nor the capacity to follow it through. As seen by John W. Davis, the belief that the government can do those things which its private citizens cannot is

> A mystical faith, similar to that of uncivilized mankind for their idols. . . . This faith is also based on a superstition. There is no such thing as this mystical thing called the government. There are only men acting under that name—men no wiser, no better and no purer than ourselves.[4]

It is further stated that not only is the extension of government power over industrial activity futile, but it will retard permanent recovery through unsettling business men's confidence in the future.

> . . . Private enterprise cannot serve society effectively under conditions of governmental interference, unnecessary and repressive regulation, and governmental competition. . . .[5]

The difficulty of forecasting economic events, the inevitability of political pressure, and the tangle of government red tape are all listed to prove that purposive direction for industry by government is bound to fail. In short, very little support can be found in business circles for the idea that the central government can accomplish positive good in directing economic activity.

It is entirely possible that this rapid extension of Federal powers will be definitely curtailed in the future. Shifts in public policy may occur and further limitations may arise from the decisions of the Supreme Court. Continued recovery in business will tend to bring an inevitable reaction against an enlargement of the central power. But whether the new trend in American political and economic life will be permanently reversed is a more difficult ques-

[4] *Commercial & Financial Chronicle,* October 5, 1935, Volume 141, page 2156.

[5] "Platform for American Industry," *New York Times, supra.*

tion. It is not raised or analyzed at this time. A superficial inquiry, however, into the relationship between central governments and business throughout the world suggests that a complete reversal is unlikely. Furthermore, an examination of the Supreme Court decisions on New Deal activities suggests that there has not been a complete legal blockade of methods for enlarging Federal control. And lastly, there is no evidence that this country will be exempt from future depressions or that such depressions will be less severe than the last. Therefore, it is in the public interest that men in business and in government, regardless of their social theories or prejudices, analyze carefully any evidence pertaining to the troublesome problem of the functioning of our economic system in a constitutional democracy.

The point of view held throughout this book is that discussion of the merits or demerits of the enlargement of Federal power in such general, vague, and elusive terms as "private initiative," "control of economic forces," "interference with property rights," or "planned or planless economy," is not conducive to a sane and effective analysis of a difficult problem. Extreme statements full of apprehension and fear, sweeping generalizations on political and business motives, and aspersions cast on the character and ability of men in public or private service will not promote a real understanding of contemporary difficulties or the development of a useful program of action. What is sorely needed is specific inquiry into a long list of cases where government and business have come into contact. A thorough knowledge of what has happened and what is happening is necessary before any sound conclusion can be reached as to what should be done.

Clearly our experience so far is not sufficient to disclose the final answer to the proper relation of government to

industry. But this does not preclude an examination of specific results obtained in certain cases. One of the best cases for study is found in the twisted and complicated development of our national sugar policy over the past 50 years, which culminated in the Sugar Control Act of 1934,[6] an amendment to the Agricultural Adjustment Act. The Sugar Act is still operative inasmuch as the Supreme Court decision outlawing the control of production under the A.A.A. has left untouched the control of the marketing of sugar under a quota system. The Sugar Act was passed as a *new method* of answering an old question, To what extent and by what method should government protection be extended to the agricultural producers, processors, and refiners of the essential basic commodity, sugar?

The sugar problem is not new; it has been the object of public solicitude for more than a century. Its final solution will affect the livelihood of thousands of farmers and millions of agricultural and industrial workers. In addition, the solution will increase or decrease the value of the capital invested in this widespread industry—in the continental United States, the Territory of Hawaii, Puerto Rico, the Philippine Islands, in Cuba, and in other foreign countries. But the effect of this solution will go far beyond purely private interests. It will determine the price which consumers will pay for sugar; it will color our foreign and colonial policy; and through changes in tariff rates it will affect an important potential source of Federal revenue.

Under the New Deal the old sugar problem has been given new treatment. Congress granted unprecedented powers to the Secretary of Agriculture. It provided for a processing tax of over $60,000,000 per year, and the Secre-

[6] "An Act to include sugar beets and sugar cane as basic agricultural commodities under the Agricultural Adjustment Act, and for other purposes" (Public—No. 213—73rd Congress) approved May 9, 1934. The Sugar Act is sometimes referred to as the Jones-Costigan Amendment.

tary was given broad authority to control (a) the amount of the production of sugar beets and sugar cane in the United States, in the Territory of Hawaii, in Puerto Rico, and in the Philippine Islands; (b) the processing of sugar cane and sugar beets; (c) the marketing of raw cane sugar, or refined beet sugar, in the United States by processors and importers; and, indirectly, (d) the refining and subsequent distribution of refined sugar. The Sugar Act, through the regulation of interstate and foreign commerce, stabilized an industry with a yearly production of over $500,000,000, and it consequently affected the profits of business enterprise, the incomes of agricultural producers, and the payrolls of industrial and farm workers. It gave the government and the industry an opportunity, through control of production and distribution, to meet the emergency facing the sugar industry in 1934 and to formulate a stabilization program for its future.

The primary purpose of this study is to ascertain the past and present relationship of economics to politics in a major food industry, sugar, in order that these findings may be checked against the convictions commonly held by business men in the larger realm of business and government. The method employed is to examine the historical development of the problem since the Civil War, to describe the background against which the Sugar Act was passed by the Federal government, to recount some of the problems of its administration, and to analyze its effects upon the sugar producing areas, the refiners, the consumer, and the Federal Treasury. Emphasis is placed upon the existence of a national economic problem requiring a national political solution, rather than upon the wisdom of any particular solution. This is done with the conviction that the most effective method of studying the necessarily complicated problem of government and business is to examine, by the

case method, the facts as they have been disclosed. In sugar, these facts are involved, complicated, and difficult to disentangle; but all important problems of government and business are likely to be of this nature. Certainly, specific inquiry and not *a priori* judgment is necessary if sound solutions of these problems are to be reached.

CHAPTER II

THE INDUSTRY INVOLVED

In current discussions of government and business, too little inquiry is made into the character of business. "Business" is a general, vague, and loose term not easily identified. In this respect it does not differ from the equally broad concepts of labor, the consumer, or agriculture. Business is a complex of widely scattered, constantly shifting, and highly specialized economic activities—some small, some large; some sectional, some national; some new, some old. Realizing this, students have placed increasing emphasis upon the somewhat more definitive term "industry," and to them the study of "government and business" becomes in part an analysis of the origins and effects of specific methods of public aid, e.g., tariffs or loans, and specific methods of regulation, such as licensing or rate fixing, that the national and state governments have inaugurated in various industries, trades, financial institutions, and public utilities.

But here again there are difficulties. Some industries, aluminum, for example, are compact in organization, centralized in location, concentrated in ownership. Other industries, like coal, are widely scattered, are composed of business units of great diversity in size, and have little or no effective group leadership. The characteristics of the sugar industry in this regard are difficult to identify; in some respects it is loosely organized, in others it is highly compact. These industrial facts have always colored its

relation to the Federal authority from which it has long gained assistance, first through the tariff, and then through the valorization of prices under the quota system. The structural character of the industry, of course, will determine in part the particular form of assistance to be rendered to it by the central government in the future. Consequently, it is necessary, before turning to the development of the sugar problem, to examine in some detail the nature of the industry.

The United States is—because of its extensive agriculture, unparalleled industrial development, and rich deposits of minerals—more self-sufficient than any other economically advanced country. In comparison with England or Japan, for example, our dependence upon imports and exports for a high standard of living is inconsiderable. The outstanding exceptions are our heavy dependence upon foreign raw silk, rubber, coffee, and sugar, which had an average import value (1926–1930 average) of approximately $1,000,000,000, or 25% of all imports.[1] It should be noted, however, that although our dependence upon imports of raw silk, rubber, and coffee is absolute, inasmuch as there is no domestic production, in the case of sugar there has always been a small contribution from the state of Louisiana, and after 1890 a growing supply from the beet sugar producing states of the West. Sugar is the outstanding major agricultural commodity which is produced in both the semitropics and the temperate north.

The sources, offshore and continental, of our sugar supply have shifted in the past, both as to territory and as to volume, and such shifts have resulted largely from

[1] The averages for these commodities are as follows:

Raw silk	$368.2 millions
Rubber	294.4 "
Coffee	281.7 "
Sugar	207.3 "

changes in our tariff and colonial policy. The far-reaching changes in the sources of supply, as shown by the percentages of the contribution to the total United States consumption, between the Spanish-American War and the extreme depression year of 1932, are disclosed in the accompanying table.

SUGAR CONTRIBUTED TO THE AMERICAN MARKET

Sources of Supply	*Percentages* 1897–1901 (average)	1932
Continental United States		
Louisiana (cane sugar)	11.1	2.6
Western United States (beet sugar)	3.2	21.1
	14.3	23.7
United States Insular Areas (all cane sugar)		
Hawaii	12.0	16.4
Puerto Rico	2.1	14.6
Philippine Islands	0.7	16.6
Virgin Islands		0.1
	14.8	47.7
Total United States and Insular Areas	29.1	71.4
Foreign		
Cuba (all cane sugar)	16.6	28.2
Other Foreign (cane and beet sugar)	53.5	0.4
	70.1	28.6
Miscellaneous	0.8	
Total Market Deliveries	100.0	100.0

Source: *Report to the President on Sugar*, Report No. 73, U. S. Tariff Commission, Washington, 1934, page 159.

In the 35-year period referred to in this table, there was more than a doubling of sugar consumption (2,407,000 tons to 5,840,000 tons) which arose from the growth in population and the rise in the national standard of living. With this growing market, all but two of the producing areas sold more sugar in the United States, but these expanding areas did not show an equal increase, either absolutely or relatively. Two groups showed an absolute contraction. Foreign countries, largely because of the increased production in areas favored by tariff protection,

including Cuba, were driven almost entirely from the American market. And Louisiana produced in 1932 less sugar than she had at the turn of the century.[2]

Approximately 75% of the refined sugar consumed in the United States is made from crude raw cane sugar obtained from Cuba and our three insular areas, the Territory of Hawaii, Puerto Rico, and the Philippines, with a small amount coming from Louisiana and Florida. The production of this raw cane sugar takes place typically in sugar mills or *centrals* distributed approximately as follows:

Cuba	133
Philippine Islands	45
Puerto Rico	41
Hawaii	39
Louisiana *	68
Florida	2

* The plantations in Louisiana are decidedly smaller than those in other areas.

These mills are generally the industrial hub of an integrated sugar "plantation-mill" unit[3] which has two economic functions: first, the growing of sugar cane, and second, the conversion of such cane into raw sugar. In addition to milling its own cane, it purchases a substantial amount from independent farmers (planters or *colonos*). On the average, plantation-mills purchase about 50% of their total cane grindings. But this practice varies widely, from as much as 65% in Louisiana to as little as 10% in Hawaii. The cane is purchased by written contract prior to its harvest and delivery, and the plantation-mill usually extends credit, materials, and agricultural assistance to its adherent planters.

The large-scale production of sugar cane calls for a

[2] Since 1932 there has been a substantial recovery in the industry in Louisiana. See Chapter XI.

[3] In the Philippine Islands the mills do not carry on extensive agricultural operation of producing sugar cane. Important exceptions are also found in Puerto Rico, where some of the larger mills have no land holdings.

heavy investment in land and agricultural equipment. Agricultural cultivation is intensive, and heavy expense is incurred in fertilization, and, in certain areas, in irrigation. The transporting of the heavy cane from the field to the sugar mill necessitates a large investment in modern railway equipment, tractors, and trucks. A typical large plantation-mill, the Fajardo Sugar Company of Puerto Rico, is reported to have assets of approximately $15,000,000, of which about one-half is in property and lands. It owns or controls about 30,000 acres of land, and operates over 80 miles of railroad. Also, like most plantations, it operates stores, hospitals, and educational and recreational institutions, besides housing hundreds of its workers.

In the sugar mill, the cane is crushed for the extraction of juices, and the cane juice is clarified and boiled under vacuum until a crystallization of sugar appears. The wet crystals are separated from the heavy boiled juice by centrifugal force and dried. The raw sugar is sacked, loaded in boats or cars, and shipped to the large refining centers, chiefly Boston, New York, Philadelphia, Baltimore, New Orleans, and San Francisco, where it is converted into refined sugar for table and industrial use.[4] The processes of converting sugar cane into raw sugar take place under one roof. They call for a high degree of technical knowledge and a large fixed investment in power equipment, crushers, clarifiers, boiling pans, centrifugals, and driers.

The beet sugar industry in the United States, producing about 25% of our national requirements of refined sugar, differs in two important respects from the raw cane sugar industry. In the first place, beet sugar is not produced in a plantation economy. Beet growers are small independent farmers (approximately 100,000), who raise their crops

[4] In recent years, especially in Cuba, there has been a development of the refining of raw sugar by the cane mills. See Chapter XV for a discussion of the increase in refining which has taken place in the tropics.

under contract with about 80 beet sugar factories, also referred to as processors. These farmers, who produce sugar beets as part of a rotation agriculture, have a typical agrarian viewpoint and are effectively organized, the largest organization being the National Beet Growers Association which maintains a permanent educational and legislative service.

Sugar beet factories are typically large-scale in operation and corporate in organization and ownership. The largest, the Great Western Sugar Company, operates 22 beet factories in four western states, and has assets reported as over $80,000,000. The processing companies generally do not raise their own beets; hence they devote all their energies to the converting of beets into refined beet sugar. In this respect they resemble the large flour millers or fruit or vegetable canners, their function being primarily industrial conversion and not agricultural production.

Here the second distinction with the raw cane industry appears. In the United States, beet sugar is both processed and refined in the same plant and in the same operation. The making of refined beet sugar is similar to the making of raw cane sugar. The beets are sliced, the sweet juice is extracted by application of water (rather than by crushing), and the resulting fluid is clarified, boiled, and crystallized. The product is immediately refined and sacked. Beet sugar and refined cane sugar are commercially competitive, but beet sugar is not usually sold in as many varieties or in as many types of packages as is cane and it bears a slight price discount. Chemically, there is no distinction between the two.

Exception must be made to the above statements, regarding the distinction between the cane and beet sugar industries, for the small but historically important industry in Louisiana. Here the growing of sugar cane and the

manufacturing of raw sugar has not been generally on a scale comparable to that of the semi-tropical islands. The typical "sugar house" is smaller in size and less modern in equipment.[5] Practically all the plantation-mills in Louisiana raise part of their own cane, but their agricultural activities are inconsiderable compared with those in Hawaii or Puerto Rico. The bulk of the cane is produced by small planters. In Louisiana, also, a small amount of direct consumption "white" sugar is made by the plantations in addition to their production of "raws."

The domestic refiners of raw cane sugar constitute still another branch of the industry, separate and apart from either the continental beet sugar producers or the insular raw sugar producers. Predominantly, the sugar brought into the United States from the producing islands is not consumed immediately by the housewife or by the food industries, but is further refined. The crude sugar so imported is brownish in color, moist, and has a large and coarse grain. It is purchased by the refiners who, with the exception of three units on the Pacific and Texas coasts, are located in the Atlantic and Gulf ports between Boston and New Orleans. The refining process involves the melting, purification, and subsequent recrystallization of the raws. In the process, the crude sugar loses its brown color and the grain becomes pure, white, and fine. In addition to refining, the refiners package the commodity in a wide variety of trade-marked containers and make special grades and types, e.g., powdered, cube, and brown sugar, for the ultimate consumer. A large part of the business is devoted to supplying certain food industries, such as the fruit canners, bakeries, and candy manufacturers, with special dry or liquid sugars necessary for the manufacture of their food specialties.

[5] For example, in Louisiana 68 mills produce approximately 300,000 tons of raw sugar annually; in Hawaii 39 mills produce nearly 1,000,000 tons.

Thus three classes of sugar are ultimately purchased by the American housewife and by the food industries: domestically refined sugar made from "offshore" and Louisiana and Florida raws, domestically refined beet sugar, and refined cane sugar processed in the insular areas and Cuba. In the trade they are known, respectively, as "domestic refined," "beet," and "offshore whites." The proportions were as follows in 1935:

Domestic Refined Cane (from offshore and domestic raws)	69.3%
Domestic Refined Beet	21.7
Cuban and American Insular Refined Cane	9.0
	100.0%

Source: Basic data, U. S. Department of Agriculture, A.A.A. press release, February 29, 1936

In view of the above facts, the word "industry" is a misnomer when used to describe the elaborate and complicated process which satisfies the sugar requirements of the nation. Actually, it is a series of industries, including the production of sugar cane by thousands of small and large producers in the semi-tropical islands, in Louisiana, and in Florida; the processing of such sugar cane by the plantation-mills found in these areas; the subsequent transportation of the raw sugar to the refiners; the refining of such sugar on the seaboards; and finally the distribution of such sugar by brokers, wholesalers, and retailers. In addition, we find the widespread beet sugar industry divided sharply between the agricultural interests, on the one hand, and the industrial and processing interests, on the other.

It might be expected that an industry so highly sectionalized (e.g., Louisiana and Hawaii) and at the same time so definitely segregated as to function (e.g., the raw sugar producers and the refiners) would have conflicting economic interests. Such has often been the case. Divergence of interest is likewise reflected in the manifold organizations representing domestic farmers, insular plantation owners,

beet processors, seaboard refiners, sugar exchanges, and distributors, which have appeared before the government in the past few years.[6] At no time has this "industry" presented a united front to Washington.

On the other hand, the impression is not to be gained that the industry's diverse character is such as to preclude the possibility of effective government assistance or regulation. Raw sugar coming into the United States leaves from 10 or 15 ports and enters about 7 ports; refining is done by about 20 refineries; beet sugar is manufactured by less than 80 factories; refined white sugar is imported by less than 10 major firms. Restricted channels of production, refining, and distribution make the industry peculiarly amenable to taxation and, at the same time, highly adaptable to regulation and control. This is true not only in the United States but in every country in the world, and it explains in large measure the extreme nationalism now found in sugar everywhere.

[6] A complete list is as follows: (1) in Puerto Rico, one organization for the planters and one for the colonos (small growers); (2) in Louisiana, one organization for plantations and farmers; (3) in the beet area, one for western processors, one for western farmers, and one (combination) for eastern (largely Michigan) farmers and processors; (4) in Hawaii, one for plantations, one for Japanese planters; (5) in the Philippines, one for plantations; (6) for the refining industry, the Sugar Institute; (7) for the speculative exchanges, one organization in New York, two in New Orleans; (8) for the importers and brokers, one organization; and, finally (9) in Cuba, a strong quasi-government organization representing her interests.

CHAPTER III

THE HISTORICAL BACKGROUND

The opinion is often expressed that the extension of the Federal power over business is a new and special feature of the Administration which was inaugurated in 1933. It is frequently stated that business, always faced with changing and unpredictable economic factors, is now faced with a new uncertainty—unpredictable political action. Mr. Harper Sibley, President of the Chamber of Commerce of the United States, has put the point as follows:

> As it is, business is now forced to deal with a number of indeterminate political factors. Some of these are: . . . The employment of regulatory power, not primarily to prevent clearly defined abuses, but to determine business policy.[1]

As a result, there is no "assurance that experiments in governmental projects are not to be continued as a permanent policy." Business demands, therefore, that "the limitation of administrative authority and the clear definition of the purposes to which it is to be directed" be clearly outlined by government.

This attitude, so commonly held by business men, is understandable in view of the wide extension of government's power over business after 1933. Sudden, far-reaching, and innovatory legislation is bound to give rise to the belief that the days preceding such legislation were those in which business had a free hand in directing its own

[1] "The Function of Government. The Business View," *New York Times Magazine*, February 2, 1936, page 21.

affairs. A superficial investigation of oil, liquor, banking, stock dealings, meat packing, shipping, railroad operation, cotton ginning, and grain trading will suggest, however, that this belief is a naïve oversimplification of the facts. In sugar, at least, it is overwhelmingly clear that the industry is not, and never has been, free from the decisions and actions of government. Its economic development has always been conditioned by government policy.

The nature of this public policy has varied from time to time. Between the Civil War and 1920, the industry was, in the order named, taxed primarily to raise Federal revenue, protected by a direct subsidy, protected through tariffs, and, under the emergencies of the War, placed under rigid government control.

TARIFF FOR REVENUE

Our pre-war tariff history discloses that varying emphasis has been placed by Congress upon the objectives of our tariff policy: should it raise revenue or support industry? The drafting of a tariff act and the setting of specific rates of duty have been affected by this issue. It is impossible to point to the particular year in which the policy shifted from one objective to another, but it is reasonably clear that between 1789, when a sugar tariff was first imposed, and 1891, the year of the inauguration of a subsidy system under the McKinley Tariff (1890), the major objective of the tariff on sugar was to raise revenue for the Federal Treasury.

It should be recalled that in the nineteenth century the Federal government did not tap individual and corporate incomes as a major source of tax revenue. Government receipts were derived largely from import duties and domestic excise taxes, total ordinary receipts of the government approximating $300,000,000 a year, and of this amount import duties totalled roughly $200,000,000. About 20%

of these duties were obtained from the duty on sugar. Consequently, the sugar duty tended to fluctuate with the condition of the Treasury; sugar duties were likely to be lowered when Federal revenues exceeded expenditures.

The duty on raw sugar before 1890 was not far from 2 cents a pound, and 85% to 90% of all sugar consumed was obtained from Cuba and other foreign countries. Upon this raw sugar the refiner paid the import tax and passed it along to consumers in the form of higher prices. Indirectly it was a consumers' sales tax, and from time to time violent objections against it arose in Congress. It was argued correctly that although the duty on sugar provided a large revenue for the Treasury, a heavy tax burden fell upon the consumers of an indispensable food product. The incidence of the tax had no connection with ability to pay.

The sugar tariff, levied primarily for revenue, had the additional effect of granting substantial protection to two areas, Louisiana and Hawaii. The total range of protection, however, was narrow, inasmuch as these two areas produced not more than 10% to 15% of our total sugar requirements. Domestic production of sugar was confined to Louisiana, which had, over a period of two centuries, developed a small and wavering industry. It had suffered drastically during the Civil War, the output in 1864–1865 being one-fiftieth of what it had been four years previously. With the return of peace, however, and under the protection of the tariff, the industry showed an upward but unsteady growth. The natural limitations of its soil and climate caused the industry to remain a hazardous pursuit, its production fluctuating widely from year to year.

The first area outside the continental United States to receive protection under our sugar tariff was Hawaii. By the terms of the Reciprocal Treaty of 1876 between the United States and what was then the Kingdom of Hawaii,

reciprocal free admission was established for certain commodities, raw sugar being the only one of real importance. The effect of the free admission of Hawaiian sugar was to encourage the exportation of the product to the United States; and the inconsiderable shipment of 20,000,000 pounds in the year 1876 increased tenfold in the next 10 years. The Hawaiian supply soon exceeded that from Louisiana. This raw sugar found its way to San Francisco, where it was sold to refineries at the New York "duty-paid" price, that is, the world price plus the duty. Under this protection, the plantation owners of Hawaii received ample financial benefits, and long before 1898 the economy of the island became closely allied with that of the mainland.

THE BOUNTY OF 1890

In 1890, with an overflowing Federal Treasury minimizing the need for revenue, there was a complete withdrawal of the tariff on sugar for the first time in a century. The two-cent duty was repealed, and coincidentally a two-cent direct bounty was paid to producers upon each pound of sugar domestically produced.[2] Overwhelmingly this bounty went to the producers of Louisiana, the beet industry then being in its infancy.[3] With sugar upon the free list, the Treasury found the source of over $50,000,000 of tariff revenue dried up. Simultaneously, the two-cent bounty called for yearly payments to producers of approximately $10,000,000. By this Act, then, the sugar industry, previously taxed for revenue, became the recipient of a

[2] The Tariff Act of August 1, 1890 (Section 1, Paragraph 231, Schedule E—Sugar) provided that ". . . on and after July 1, 1891, and until July 1, 1905, there shall be paid from any moneys in the Treasury not otherwise apportioned . . . to the producers of sugar testing not less than 90° by the polariscope, from beets, sorghum, or sugar cane grown within the United States, a bounty of 2 cents per pound . . . under such rules and regulations as the commissioner of internal revenue, with the approval of the secretary of the treasury, shall prescribe."

[3] It is to be noted that the seaboard refiners of raw cane sugar did not receive a bounty.

direct subsidy. The subsidy was not paid out of processing taxes, as proved to be the case 43 years later under the A.A.A., but came directly from the general funds of the Treasury.

The bounty of 1890 is of interest to the student of contemporary national sugar and agricultural policies. In the first place, the subsidy to agricultural producers was not considered as an emergency policy but as a plan to be operative for 16 years. Of course, the bounty did not prove to be a permanent solution to the sugar problem; it was, in fact, repealed in 4 years. In the second place, the primary purpose of the bounty appears to have been to aid consumers rather than producers. It was pointed out that free sugar would reduce the indirect tax (over $50,000,000), paid by the consumer. The bounty paid directly from the Treasury would be only $10,000,000, but the Treasury, not the consumer, would pay that. Thirdly, the bounty of 2 cents per pound was paid to producers without providing for control of production. This payment, added to a relatively firm price of sugar in the world markets, gave a liberal return to producers in Louisiana, and, as a consequence, output increased rapidly. Direct Federal assistance, without an accompanying limitation of production, tended to increase the volume of production eligible for protection. And, finally, it is to be noted that the amount of the bounty, 2 cents per pound, had no necessary relation to the "need" of domestic producers.

It is true that the duty had been reduced by an amount equal to the bounty, but that rate of duty had been set primarily for revenue, not for protection. When Congress established the direct bounty at 2 cents per pound, little information was available as to costs of domestic cane sugar production, or profits and losses. As frequently happens, the public supported an industry with little

knowledge of the degree of assistance needed by that industry.

As has always been the case, the fundamental shift in our sugar policy in 1890 affected directly the economic position of the various producing areas contributing sugar to the American market. Cuba and other foreign countries were aided, Hawaii harmed. Eliminating the duty tended to raise the free or unprotected price in the New York market, and some of the income which previously had gone into the Treasury now tended to go to Cuba and other foreign countries in the form of higher prices.

If there were advantages to Cuba, however, there were corresponding disadvantages to Hawaii. The placing of sugar on the free list in 1890, and the payment of a direct bounty to domestic producers only, left the Hawaiians, who by treaty had been the beneficiaries of free trade in sugar since 1876, in an unprotected position. Although the economic, political, and military ties between the United States and these islands had become strong, the insular industry was left exposed to the "winds of international competition." For the first time, Congress juggled the interests of the various sugar-producing groups. In this case, Louisiana, with her direct bounty, and Cuba, with free sugar, were aided whereas Hawaii suffered the rude shock of the withdrawal of tariff protection.

As a result, the price of Hawaiian sugar fell sharply, and a general deflation pervaded the island, the American Minister estimating the loss at approximately $12,000,000 a year. " 'Unless some positive action of relief be granted,' he said, 'the depreciation of sugar properties here will go on. Wise, bold action by the United States will rescue property holders from great loss.' "[4] The uneasiness and

[4] *The Rise of American Civilization,* Charles A. Beard and Mary R. Beard, The Macmillan Company, New York, 1930, Volume II, page 359.

discontent of this period (1891–1892) led, in a large measure, to the revolution of the American settlers against the monarchy of Queen Liliukolani, and the establishment of the Republic of Hawaii (1892). As has subsequently occurred in other areas, e.g., Cuba and the Philippine Islands, the economics of sugar accelerated the speed of political events.

Thus, from the beginning of the nineteenth century to the outbreak of the Spanish-American War, the sugar policy of the Federal government wavered from a duty for revenue to a direct domestic bounty in conjunction with free sugar and back again (in 1894) to a duty without a bounty.[5] The producers of Louisiana, Hawaii, and Cuba had been affected directly by these shifts in policy; and the domestic refining industry, largely as a consequence of the continuous tariff protection for *refined* sugar, had been given a preferred position in the American market. But the far-reaching political effects of the Spanish-American War were to change the circumstances under which the sugar industry operated, and to lay the foundation for the extension of the tariff-protected area.

TARIFF FOR PROTECTION

It is recognized, but not frequently made explicit, that one of the most important public implements for directing the growth of industry is the mechanism of a protective tariff. Since the days of Alexander Hamilton, the tariff has been used by the government as a device to assist and direct selected groups in our economic life. Through shifts in public policy, tariffs have been raised and lowered, and, in consequence, higher profits or greater losses have been experienced by industrial and agricultural groups. The intention here is not to generalize on the controversial sub-

[5] The sugar bounty was repealed and a new duty of 40% of the value of the sugar imported was established.

ject of international trade but to limit the discussion of the tariff to the case of sugar.[6]

Before approaching this specific case, it is helpful to identify various economic groups in our national economy which have or have not received financial assistance through tariff protection. It is certain that such benefits have been experienced more immediately and directly by some than by others. Producers of commodities which are not imported, such as tractors or bread, gain no assistance from tariffs as there is no foreign competition. Likewise, persons performing services, such as cleaning and dyeing, do not face competition from abroad. Obviously, these service groups are not directly affected by tariff rates except as they are purchasers of imported supplies and equipment. Producers of commodities which are exported in sizeable volume and not imported, for example, lubricating oils or pork products, are not concerned with tariff protection. The price for their commodity tends to be set upon the world market, and the existence of a tariff upon their commodity is of little business interest to them. Other groups of domestic producers have not suffered from import competition. A low or high tariff upon phonograph records or standard cigarettes is of little concern to producers of these commodities. Special skill, trade names, and patents afford immunity from direct foreign competition. The economic factors affecting the prosperity of these trades are not the degree of tariff protection but the level of domestic purchasing power and the severity of domestic competition.

Some economic groups produce commodities which have higher costs than are found in foreign countries and which are standardized to a point where there is little consumer

[6] An excellent discussion of the sugar tariff is found in *Sugar in Relation to the Tariff,* Philip G. Wright, McGraw-Hill Book Company, Inc., New York, 1924.

preference for the domestic product. They are directly affected by tariff changes, and a partial list would include such commodities as standard chemicals and rayon. Furthermore, if the protected industry is so specialized in the technical sense that it cannot switch its productive equipment from the manufacture of the protected article to that of any other article, it becomes increasingly vulnerable to shifts in the rate of tariff protection. If, in addition to these factors, the domestic commodity is one in which importations may swell rapidly with a reduction in the tariff, its vulnerability is even greater.

Applying these generalizations to sugar, it is seen that the production of beet and cane sugar in the areas under American protection is carried on at a substantially higher cost per pound than in Cuba,[7] and the raw sugar manufactured in the United States and our islands has no characteristics differentiating it from the foreign product. Furthermore, the domestic sugar industry is highly specialized, particularly in the processing of sugar beets and sugar cane; a cane sugar mill or a beet sugar factory can be put to no alternative use. And finally Cuba, the chief foreign competitor, would be, under free trade, in a position to increase rapidly her output at low prices, displacing a large volume of mainland and insular sugar. Sugar is thus a case *par excellence* where the government, by changes in tariff rates, can foster or undermine a domestic industry.

With these considerations in mind, attention is turned to the history of the sugar tariff after 1897 which falls into three time periods: (1) that, roughly, between the Spanish-American War and the outbreak of the World War in 1914; (2) the war period; and (3) the post-war period,

[7] The latest study of the cost of production of sugar in the United States, the insular areas, and Cuba is found in the *Report to the President on Sugar,* 1934.

1920 to 1933. Because of the radical changes in the sugar industry in the United States and throughout the world which took place after the War, the operation of the tariff in that period is reserved for later consideration.[8] Briefly stated, the outstanding characteristics of the period between 1898 and the World War were the relative stability of sugar income received by American producers and the extension of tariff protection beyond the mainland and Hawaii to Puerto Rico, the Philippine Islands, and Cuba.

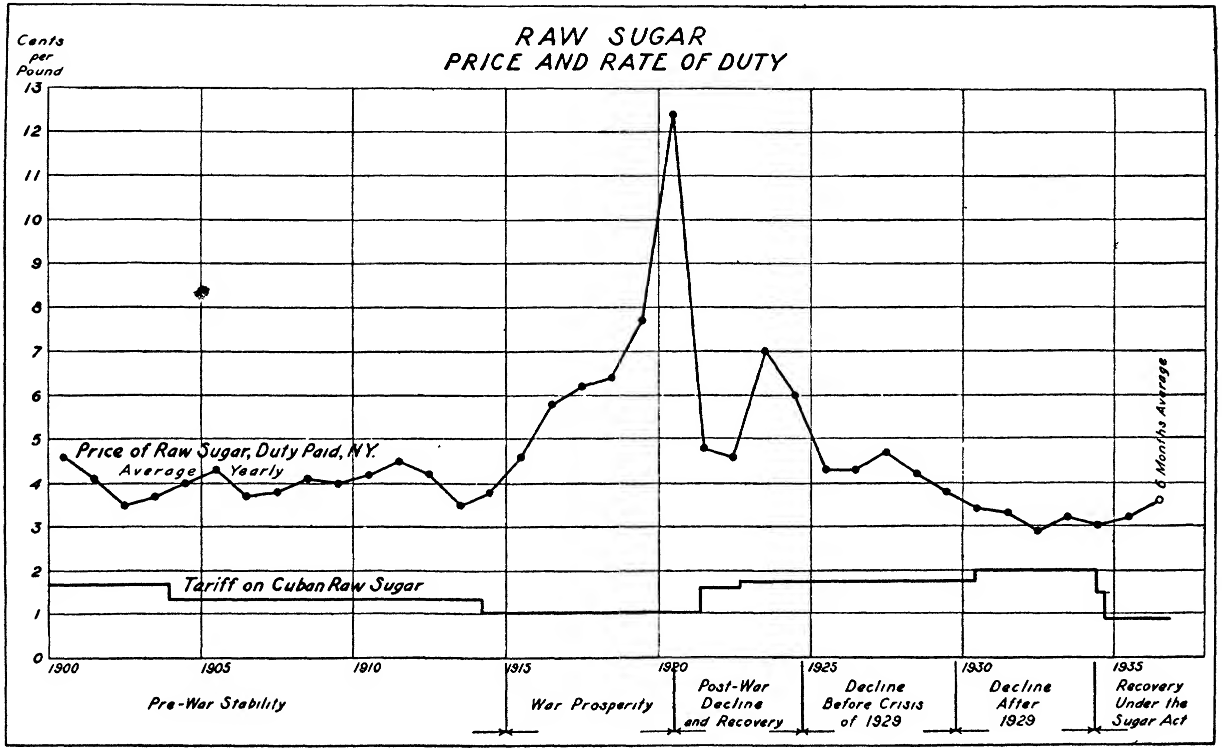
After the turn of the century and until the Great War, the price of raw sugar, duty paid, maintained an extraordinary stability.[9] During this period the price averaged about 4 cents a pound, after payment of duty, and the extreme range was from about 3½ cents (in 1902 and 1913) to about 4½ cents (in 1900 and 1911). The absence of wide fluctuations in sugar prices was a factor conducive to profitable agricultural and industrial operations. The steadiness of the national price resulted from the stable world price for sugar, the prosperity in domestic sugar being a manifestation of the tranquillity in the world market.[10] Sugar production was adjusted to world demand, prices were firm, and consequently it was possible to maintain a stable rate of duty in the United States. The sugar tariff was not changed for 17 years.[11] This constancy of duty demonstrated that the producers of sugar in the United States were operating in a world economy conducive to their prosperity; economics and politics in this field seemed to have achieved perfect balance. But these years were the last in our sugar history in which such economic

[8] See Chapter V. [9] See Chart I.

[10] The International Conference on Sugar, held in Brussels, 1903, arrived at an agreement for the prohibition of the price depressing practice of dumping European beet sugar on the world markets.

[11] In 1897 the full-duty rate was established at 1.685 cents and that rate was not changed until March 1, 1914, when it was reduced under the Wilson Administration to 1.26 cents. In 1902 the duty on Cuban sugar was reduced 20% in accordance with the reciprocity treaty of that year.

CHART I



RAW SUGAR
PRICE AND RATE OF DUTY
Cents per Pound
13
12
11
10
9
8
7
6
5
4
3
2
1
0
Price of Raw Sugar, Duty Paid, N.Y.
Average Yearly
6 Months Average
Tariff on Cuban Raw Sugar
1900
1905
1910
1915
1920
1925
1930
1935
Pre-War Stability
War Prosperity
Post-War Decline and Recovery
Decline Before Crisis of 1929
Decline After 1929
Recovery Under the Sugar Act

peace was enjoyed. Since 1914 the American sugar system has been in a constant state of flux.

Historically reviewed, this pre-war stability in price and rate of duty is of secondary importance as compared with the results of enlargement of the area of protection. Although the tariff itself remained constant, its protection was extended into new areas as a result of our colonial and Cuban policy. This policy brought a territorial status to Hawaii in 1898; Puerto Rico, after a period of military occupation, became an incorporated possession in 1902; the Philippine Islands were placed under the American flag; and Cuba came into the political sphere of the United States by granting, as a "free" republic, the right of our intervention under the Platt Amendment.

Free trade for Hawaii, Puerto Rico, and the Philippine Islands, and a tariff preferential for Cuba resulted from these new political ties. It is to be recalled that since 1876, with the exception of the period 1890–1894, Hawaiian sugar had enjoyed protection in the United States market. At the time that Hawaii was incorporated into the United States as a territory, the trade treaty was abrogated and these islands took their place within our free trade area in the same category as the states of Colorado and Louisiana. In July, 1901, free trade was extended to Puerto Rico, and she took her place along with Hawaii and the domestic producers. Likewise, the Philippine Islands were given tariff aid, although more gradually. Acting with caution, Congress, between 1903 and 1909, gave them a 25% reduction over the world duty; in 1909, free entry was granted up to 300,000 tons; and in 1913, under Woodrow Wilson, this duty-free quota was lifted, allowing unlimited free entry. In 1902, Cuba, which heretofore had paid the full duty, was given, under the Reciprocal Treaty of that year, a preference of 20%. This reduction of duty

to Cuba was unaccompanied by any restriction on the amount of sugar to be imported.

The first important effect of the extension of the protective principle to Hawaii, Puerto Rico, the Philippine Islands, and Cuba was a stimulation of production in those areas which, added to the rapidly advancing continental beet production, pushed all foreign sugar from our market.[12] This increase in the total supply (approximately 1,750,000 tons or 174%) between the turn of the century and the Great War was not shared proportionately by all areas.

GROWTH OF SUGAR SUPPLIES TO THE CONTINENTAL UNITED STATES
(in thousands of short tons, refined basis)

Producing Area	*1897–1901*	*1914–1916*	*Change*
Continental United States			
Louisiana Cane	267	222	− 45
Beets	77	782	+ 705
Insular Areas			
Hawaii	289	580	+ 291
Puerto Rico	50	361	+ 311
Philippine Islands	18	132	+ 114
Foreign Countries			
Cuba	401	2,063	+1,662
Other	1,287	31	−1,256
Total	2,407	4,190	+1,783

Source: *Report to the President on Sugar*, 1934, Table 4, page 38.

Under the influence of tariff protection, the domestic beet area was transformed from an infant into a full-grown and blooming industry. The three insular areas—Hawaii, Puerto Rico, and the Philippine Islands—expanded tremendously their American markets, the largest amount coming from Hawaii, but the most spectacular growth taking place in Puerto Rico. Louisiana in this period showed a slight contraction.

Cuba, enjoying an American duty preference of 20%

[12] Sugar from Cuba is referred to as Cuban sugar, not foreign sugar. Sugar from other countries, e.g., Java or Mexico, is referred to in this text, as in the trade, as foreign or full-duty sugar.

and aided by relatively remunerative world prices of sugar, more than doubled her output for the American market and to this extent joined in crowding other foreign countries from our market.[18] Cuba's tariff preference, however, was but one of the factors favorable to the development of her industry. The influx of American capital following the stabilizing economic and political treaties of 1902 rapidly modernized and improved the sugar industry. And the freight advantage held by Cuba over other producing areas made the United States her natural consumer. By about 1913 Cuba's enlarged production began for the first time to flow to European shores. Cuba thus exposed herself not only to shifts in our sugar policy, but to the uncertainties of economic policies of European countries.

The second important effect of the new protective policy was the remolding of the economic and social life of the islands. The Territory of Hawaii, Puerto Rico, the Philippine Islands to a certain extent, and Cuba became specialized one-crop areas; and, in consequence, the value of the capital invested in the industry, the size of the labor pay roll, and the volume of shipping to the mainland became directly dependent upon the continuation of our protective policy. It became increasingly apparent that any drastic revision in our sugar protectionism would have an immediate adverse effect upon labor and social conditions in the islands. As has been pointed out, there are

[18] Between 1900 and 1913, the imports of full-duty sugar into the United States decreased as follows (in thousands of pounds):

	Total	*Dutch East Indies Java*	*West Indies Other than Cuba and Puerto Rico*	*Europe (Beet Sugar)*	*All Others*
1900	2,758,427	1,162,203	347,730	701,539	546,955
1913	225,098	12,760	3,930	182,648	25,760

Source: *Effects of the Cuban Reciprocity Treaty*, U. S. Tariff Commission, Washington, 1929, page 67.

many cases in which tariff protection is of little interest to the domestic industry involved, but in sugar the very economic existence of the islands acquired after the Spanish-American War was conditioned by American policy. The tariff became the method for the determination of the sources of supply for the American market and, in turn, under the peculiar circumstances surrounding the economy of one-crop islands, sugar became the basis of the livelihood of over 15,000,000 people.

The stability and balance of the American sugar system suffered a shock from Congress in 1914 with a mild reduction in duty of 0.43 cents per pound and the provision that sugar should become free of duty in 1916. Under the Wilson Administration protection was to be withdrawn, but a two-year breathing space was allowed to alleviate the death pangs. What the exact results of free sugar would have been in 1916 is difficult to appraise and is of little concern at this juncture. Free sugar was killed in the mid-term elections of 1914 which weakened the power of the Democrats, and an amending Act of 1916 retained the sugar duty at the rate of 1¼ cents per pound. The United States, which had flirted with the idea of destroying the industry by withdrawing all protection, turned during the World War period to take sugar completely under government control.

THE INDUSTRY UNDER WAR CONTROL

The far-reaching effects of the World War upon our key industries, our foreign trade, and our financial relations with the world reveal themselves more clearly with the passing of time. The overstimulation of agricultural exports, the booming of the war industries, the creation of mountainous war debts, and the dislocation of the international price structure, gold flows, and currencies, are

effects of the War which have received common recognition. Sugar, being a world commodity near the top of the list of industries designated as essential in war time, received the full impact of the blow of economic dislocation arising from international strife. This impact left in its train disastrous results which the industry has not shaken off to this day. The national sugar industry, which had received the Congressional edict (in 1914) that in 1916 it was no longer to receive government assistance through the tariff, was in the years 1917 and 1918 rigidly mobilized by the government for military purposes.[14]

The United States has engaged in only one major international conflict, and the exact character of government war control of industry in the future cannot be stated definitively. It is safe to assume, however, that certain economic pursuits will always be placed under government direction. Regulation of gold flows and foreign exchanges will occur, shipping will be nationalized, and the transportation system will be devoted to war requirements. Also it may be expected that a large degree of direct control will be exerted over the so-called essential industries, such as coal, steel, and chemicals. Price, distribution, and production will be blue-printed for essential food products. In varying degrees this occurred during our last venture in international strife and can be expected to recur in the next. When, as, and if it does occur, sugar will be among those industries to become completely nationalized.

During the War (and at the present time) approximately 75% of the supply of raw sugar for the United States market was obtained from islands off its shores, ranging from 6,000 miles in the case of the Philippine Islands to a few hundred in the case of Cuba. The effective trans-

[14] The material on war control is derived largely from *Government Control of the Sugar Industry in the United States,* Joshua Bernhardt, The Macmillan Company, New York, 1920.

portation of sugar demands a continuous supply of shipping bottoms, of which there is always a shortage during an international conflict. Therefore, one of the factors which tended to disrupt the flow of sugar to the United States market was the lack of ocean-going vessels. The records show that the National Shipping Board and the Food Administration had constantly before them the problem of restricting the consumption of sugar in the United States for the purpose of relieving our merchant marine of its war burdens.

In addition to the freight problem, a second factor makes the sugar problem acute during war time. Over one-half the sugar in the world is produced in the beet sugar areas of the northern hemisphere, most of it coming from the countries of northern and central Europe. The War brought about a drastic reduction in the supply of European beet sugar. As a consequence, England, Italy, and France were faced with a sugar shortage and called upon the United States to fill their needs. These needs were met by the American refiners who obtained an enlarged volume of raw sugar from Cuba. In addition, in the United States the domestic sugar producers in the western states and in Louisiana did not enlarge their output. They were hampered by the high costs of increasing production and the shortage of agricultural labor. Thus American producers did not replace the Cuban supply which was diverted to meet the increased demand of our Allies.

These domestic and world circumstances made it imperative that sugar be placed under national control. A Sugar Division was created within the Food Administration in 1917. Later, in June, 1918, the United States Sugar Equalization Board was created to exert more drastic control over the price and supply of the commodity. The government took steps to control the industry through

stimulating output, restricting consumption, and fixing price.

The first step was to place an embargo on the export of refined sugar to destinations other than the Allied nations (August, 1917). Then attempts were made to enlarge the production of raw sugar in Cuba, the most hopeful source of an increased supply. This took the form of an agreement between the United States and representatives of the Allies to fix the price at $4.60 per hundred pounds for the 1917–1918 Cuban crop; then the supply was divided, one-third to the Royal Commission on Sugar Supplies for export to Europe, and the remaining two-thirds to the United States. Labor and political disturbances in 1917 threatened the Cuban crop and it is reported that

> . . . At the request of the Department of State, he [Herbert Hoover] investigated the situation so that action might be taken by the United States Government to aid in preserving order in Cuba. Subsequently, an agent of the American Government was sent to the island to cooperate generally with the Cuban Government in any measure which would be necessary to protect the sugar supplies of the United States.[15]

Following this, attempts were made to increase the production in the American areas but

> It was clear, however, that any significant increase in sugar production from any other source but Cuba was out of the question, both for agricultural and economic considerations.[16]

Between 1916–1917 and 1919–1920, the total available national supplies increased from slightly over 5,000,000 tons to over 6,100,000 tons. Cuba contributed all of this increase. The method of stimulating such increase in Cuba was through a fixation of a liberal price by a United States

[15] *Ibid.*, page 21. [16] *Ibid.*, page 22.

government agency. A possible decrease in the domestic and insular output due to rising costs of production was forestalled through Federal price fixing, plus large doses of patriotic exhortation to farmers. Only a year after Congress had planned to place sugar upon the free list, Mr. Herbert Hoover, as National Food Administrator, wrote a letter to the beet sugar producers which stated, after reciting the existence of a war sugar shortage, that

> ". . . I, therefore, earnestly appeal to every farmer so situated to come to his country's aid in this hour of need. Without the cooperation of the American beet grower, our task will be very difficult and our ability to respond to the call to be made upon us for this very essential commodity will be curtailed. It is at least the duty of every beet grower to maintain in 1918 his normal acreage of sugar beets. It is his privilege to increase the acreage to the extent that a well-balanced production of the crop will permit, and in this manner effectively demonstrate his patriotism." [17]

Besides this inspiring appeal, the government took the precaution of fixing the price of sugar beets at a figure calculated as high enough to bring out the supply.

Following these efforts to increase production in Cuba and the United States, steps were taken to limit consumption in the United States. This also was attempted through a patriotic appeal; but the Sugar Equalization Board, established in 1918, discovered that such pleas were not effectual. As a consequence, sugar was rationed. Sugar cards were distributed to consumers and a restricted amount made available to food manufacturers. It is estimated that

> In 1918, when conservation of sugar was a necessity, the Sugar Board, in cooperation with the Food Administration, through supervision of distribution, brought about a saving of about 600,000 long tons. . . .[18]

[17] *Ibid.*, page 26. [18] *Ibid.*, page 125.

Thus, the decrease in consumption did not occur because of high prices, inasmuch as the government controlled and moderated the price of sugar cane and sugar beets, raw sugar, and refined sugar in wholesale and retail markets. From January, 1918, to October, 1919, it is estimated that the savings to the consumer through the establishment of a maximum price for refined sugar "reached the enormous total of $750,000,000 or over $7 per capita." [19]

The war control of sugar attained the objective sought, that is, a reasonable price to the consumer, an increase in supplies from Cuba to offset partially the deficit faced by our Allies, and an adequate return to our domestic producers. In accomplishing this through price fixing, patriotic appeal, voluntary contract, and legal sanction, the government assumed virtual control of the sugar industry. The result was to bring forth heavier investment in both producing and refining and to entrench more firmly the economic interests which had come into being under the protective policy following the Spanish-American War. Furthermore, it became recognized for the first time that America could not engage in an international conflict without finding herself confronted with a sugar shortage. The military argument for protection of the domestic producing and refining interests, and the stabilization of the Cuban supply, was given validity by the experience of the war years, and it will always play an important part in the formulation of our sugar policy.

Thus, before 1920, sugar in the United States had evolved through many stages. At all stages, however, the decisions of the government were vital factors in aiding or discouraging the industry. Government directed, aided, located, and discouraged business, not by regulation but by enhancement of price through a tariff. Before the Spanish-

[19] *Ibid.,* page 127.

American War, the tariff had great importance in meeting the budgetary requirements of the nation; protection was of secondary importance, being limited to a small area, Louisiana and, by treaty, to Hawaii. In 1890 the sugar policy shifted and an outright bounty was granted to sugar producers. In 1894 the bounty policy was discarded and the tariff was reinstated. With the acquisition of new territory following the Spanish-American War, the protective principle was applied over an increasingly larger area and our new sugar policy recast the economic physiognomy of Hawaii, Puerto Rico, Cuba, and the Philippine Islands. Between 1900 and 1914, with relatively stable world prices, the tariff brought a stabilized income to producers, continental, insular, and Cuban. With the outbreak of the World War, however, this balance was upset and the tariff was modified in favor of a plan of direct price fixing. The War brought about a series of events which made the traditional tariff policy, so successful in a stable world, an ineffective and confusing method of control under post-war economic conditions.

CHAPTER IV

THE WORLD SUGAR DEPRESSION

There was no farm problem in the United States in the prosperous years leading up to the Great War. Europe absorbed our growing surpluses of wheat, cotton, pork, and tobacco at stable and remunerative prices. Sugar, in turn, reflected this world stability. World sugar prices were firm, and with the United States duty added to that price our continental and insular producers were assured of an adequate return.[1] Under these circumstances, sugar producers, like wheat and cotton farmers, had little reason to be concerned with the complications of world economics. The World War, however, brought this "age of innocence" to an abrupt end. The world sugar industry entered a period of maladjustment and depression which forced the American farmer to think in international terms.

This maladjustment did not reveal itself immediately. On the contrary, after the declaration of peace, there was a world-wide belief that shortages existed in almost all essential raw materials and prices of these commodities rose to unprecedented heights in the short-lived inflation boom of 1920. Sugar, released from government war control and still facing a shortage, was one of the speculative leaders in that boom. When the bubble burst, sugar dropped from the astronomical level of 24 cents a pound to less than 5 cents within twelve months. A general deflation in sugar took place. It was soon realized, however, that agricultural

[1] See Chart I.

reconstruction in Europe could not proceed as rapidly as had been anticipated; and with an increase in world consumption and a cyclical reflation in all international prices, the price of sugar advanced between 1922 and 1924 by about a third. The movement of the price of sugar, compared with that of all world prices during the post-war depression and recovery, was as follows:

INDEX OF BASIC WORLD COMMODITIES AND SUGAR PRICES
(1923–1925 = 100)

	World Prices Foodstuffs and Raw Materials *	*Sugar Prices*
1920 Post-War Inflation	153	300
1921 Post-War Deflation	75	84
1922	80	75
1923 Post-War Reflation	102	132
1924	97	104
1925	101	64
1926	87	64
1927	82	74
1928	78	61
1929 Extreme Prosperity	74	50
1930	54	37
1931	36	33
1932 Extreme Depression	28	23
1933	35	30

* The commodities making up the index include coffee, copper, cotton, rubber, silk, sugar, tea, tin, and wheat.

Source: *Survey of Current Business*, U. S. Department of Commerce.

The year 1924 was a prosperous one for the international sugar trade. It appeared, superficially, that the sugar industry, which had suffered a severe dislocation during the War and had been so thoroughly deflated in the post-war depression, had recovered a semblance of order. World cane sugar production, stimulated largely by the speculative expansion of American investments in Cuba, was at record-breaking levels. The sugar industry was persuaded that it could produce and sell sugar in the same peaceful economic setting that had existed before 1914. There were brewing, however, disturbing elements which were to bring in the next five years a drastic unbalancing

of world supply and demand, an unprecedented accumulation of surplus stocks, and a depression in world sugar prices.

THE SUGAR DEPRESSION BEFORE THE CRISIS OF 1929

Beginning in 1925, prices of certain raw materials in the world markets, particularly those from tropical and subtropical areas, began to fall as a result of excessive production. The significance of this drop was not properly appraised at that time. A large volume of foreign loans, flowing into such countries as Cuba, Brazil, Argentina, and Australia, concealed the inevitable economic confusion which was to result from overproduction. These loans and a booming world trade, however, did not prevent world raw material prices from falling 25% between 1925 and 1929. During these years, sugar was conforming to the world pattern of other basic commodities. World sugar production increased, enormous surpluses accumulated, and prices dropped below pre-war levels.

WORLD SUGAR PRODUCTION, CARRYOVER, AND PRICES
(short tons, raw value)

Crop Year	*Total Supply*	*Visible Supply September 1*	*Production*	*Price per Pound*
1924–1925	29,375,000	2,705,000	26,670,000	3.1¢
1929–1930	36,449,000	5,842,000	30,607,000	1.7¢

Source: Computed from material given in *World Trade Barriers in Relation to American Agriculture*, Letter from Secretary of Agriculture transmitting in response to Senate Resolution No. 280, 73rd Congress, First Session, 1933, page 267.

The question naturally arises: Why did world sugar production continue to expand in the face of an unparalleled enlargement in the yearly carryover and a continued decline in price? Why did unremunerative prices fail to bring a reduction in output? In retrospect, it appears that two forces, one political and the other technological, prevented normal operation of the economic processes to re-

adjust supply. The first and more important of these two forces, the growth of economic nationalism, is still operative and makes inevitable the continuation of our new national sugar policy adopted in 1934.

Economic Nationalism

Before consideration is given to the political force, certain elementary facts regarding the relation of the sugar industry to governments should be considered. The industry is universally susceptible to government aids, regulation, and control. The six inherent characteristics of the industry given below are not always operative at any one time and their importance is not always equal or constant, but every government, in formulating its sugar policy, has been forced to recognize them. They are responsible for the large measure of government control of the industry found everywhere and they make international free trade in sugar an idle dream.

(1) Sugar is a cheap food. Most types of protection —tariffs, bounties, or quotas—serve to raise its price. But if moderate, such price increases do not bring objection from consumers and consequently there is always a temptation for government to yield to the plea for protection in some form. All statesmen are aware of this.

(2) The channels of production and distribution of refined sugar, whether cane or beet, are relatively few. If sugar is largely imported, as in England, it is relatively simple to exercise control over its importation. Outright prohibition or partial limitation through quotas is entirely feasible. There are relatively few refiners of the raw sugar so imported. These refiners carry on their business through established channels, and any attempt by them to ignore government regulation is likely to be futile. If the government gives them direct bounty, the granting of such finan-

cial aid is a simple administrative task compared with the granting of subsidies to more widely scattered industries. And lastly, if the government elects to subsidize beet farmers, such subsidy is easily accomplished through the fixing of minimum prices of sugar beets. Any loss sustained by the beet factories can be offset by payments of a direct bounty by the government. This type of subsidy has been successfully administered in Great Britain.

(3) The industry is highly specialized. In the processing of beets and cane and in refining there is a large fixed investment in machinery and plant. Consequently, once a nation has extended protection to any given area, either by the adoption of a high tariff policy or by the artificial stimulation of the industry through bounties, it is extremely difficult politically to discontinue that support. The history of sugar shows that, once extended, government protection is rarely withdrawn.

(4) Cane and beet sugar are in constant competition. Sugar is the only important commodity which can be produced in volume in both the tropics and the northern countries, and cane sugar is lower in cost. Consequently all the arguments that one might expect against "cheap tropical production" have been marshalled by the leaders of the beet sugar industry. During the depression, this defense of the beet industry, which requires a large volume of farm labor, was given frequent expression. Confronted with a serious unemployment problem, industrial countries like Great Britain and the United States could not ignore it.

(5) The industry is of military importance. The World War showed that in a prolonged conflict, a constant supply of sugar is of the utmost importance, to both combatants and neutrals. The argument that the sugar industry, both production and refining, should be protected for military

reasons has been given greater weight by the international political unrest following the World War.

(6) And finally, sugar has always influenced colonial policy. With the advance of colonial expansion by both Europe and the United States, large sugar areas came within the political and economic orbit of the older capitalistic countries. One common method of cementing the new relationship and promoting colonial trade was to grant certain tariff favors. The increased emphasis placed on the necessity for colonies following the World War made it almost inevitable that the home governments would become involved with sugar.

In view of these peculiar characteristics, it is not surprising to find in the world intensification of agricultural and industrial protectionism after 1925 that the sugar industry was at the top of the list of industries receiving public aid.[2] Caught in a wave of economic nationalism, the governments of the sugar producing countries could not withstand the pressure of demands from their sugar industries for protection against an influx of cheaply produced tropical cane sugar.

In discussing the forms this sugar protectionism has taken, it is helpful to distinguish three types of countries; those that import sugar, those normally self-sufficient, having neither imports nor exports, and those definitely having a surplus available for export. The equating of the sugar supply of exporting countries to the demand of importing countries brings a resultant world price. Between 1925 and 1930, production for export grew out of line with the requirements of importing countries, and the world price dropped accordingly.

[2] For a short and lucid description of the world depression in sugar, see Chapter IV, "Control Schemes in Sugar," *Markets and Men, A Study of Artificial Control Schemes in Some Primary Industries*, J. W. F. Rowe, The Macmillan Company, New York, 1936.

The leading sugar-importing and sugar-consuming country, excepting the United States, is Great Britain.[3] In view of her importance in world trade and her influence over world economics, her protectionistic sugar policy, which had its origin in the period under review, is of paramount interest. Before the War Great Britain was the classical exponent of free trade. Duties on sugar were low and since no direct subsidy was given to domestic producers of sugar beets, such production was an economic impossibility. The beet sugar industry did not exist. Since that period, however, steps have been taken to encourage the domestic beet sugar industry as well as the production of cane sugar in colonies and dominions. In 1919 Imperial preference was introduced, Empire sugar being admitted at five-sixths of the full rate, and in 1924 a direct bounty was paid to the processors of sugar beets which has continued every year since that date. The bounty was granted with the knowledge, as expressed by the Chancellor of the Exchequer, that

> There is not, so far as we can discover, any case in the world where a beet sugar industry has been developed except with the assistance of the state. . . . We believe, however, that a period of ten years [a bounty] will be sufficient for that purpose and the subsidy might be upon a diminishing scale during that period.[4]

The British beet sugar industry was not, however, able to stand on its own feet after 10 years, and the bounty system was extended and made permanent in 1936.[5] Under a public bounty equal to over 60% of the value of the

[3] The discussion of England's sugar policy is based largely on the *Report of the United Kingdom Sugar Industry Inquiry Committee,* presented by the Minister of Agriculture by command of His Majesty, April, 1935; printed by H. M. Stationery Office, London, 1935.

[4] *Ibid.,* pages 19–20.

[5] Sugar Industry (Reorganization) Act of 1936. (26 Geo. 5 and 1 Edw. 8. Chapter 18.)

output, beet sugar production, practically non-existent in 1924, rose to over 450,000 tons in 1933–1934.[6] Not only the beet growers and processors but also the refiners of cane sugar received public support, and by 1934 the nation which once had been foremost among the advocates of "free trade" and "comparative advantage" was tendering assistance to sugar as follows:

> In general terms, . . . the rates of assistance enjoyed in the United Kingdom in 1934 were:—Home produced sugar, 11s. 2d. per cwt. (including molasses subsidy); colonial sugar, 5s. 9d. per cwt. (approximately average); and dominion sugar, 3s. 9d. per cwt. In addition, of course, dominion sugar receives assistance in the country of origin. The operation of refining in the United Kingdom is protected to the extent of 2s. 4d. per cwt. of refined sugar.[7]

Thus in England a free and unfettered sugar trade was radically transformed into one marked by the stimulation of the local beet industry, the preservation of the British market for the British manufacturers of refined sugar, and a complicated system of preferences for the colonies and dominions. The last defender of international laissez faire came to support the most artificial economic pursuit in the sugar world, production of sugar beets in the thin soil and under the cool skies of Great Britain. The outstanding economic result of England's new policy was, of course, to increase the production of all sugar in the Empire. This meant that she imported less "foreign" sugar, which had come from Cuba for the most part, to fill her requirements and to that extent she aggravated the maladjustment of world supply to demand.

[6] It is reported that the approximate amount of direct government assistance in the case of the beet sugar subsidy amounted to the equivalent of $52,000,000 from 1933–1934 to 1935–1936. "Trends in British Agricultural Policy," *Foreign Crops and Markets,* U. S. Department of Agriculture, October 19, 1936, page 460.

[7] *Report of the United Kingdom Sugar Industry Inquiry Committee,* page 8.

In contrast to Great Britain, there are a number of countries in the world which produce most of their sugar requirements. Their yearly imports of sugar vary normally with the size of their domestic crops. France affords a good example of a large consumer whose demands are met by beet sugar produced at home and cane sugar from her colonies. Spain, Italy, Sweden, Denmark, and Austria are other European countries which have become self-sufficient under a system of government protection to their beet sugar industry, such self-sufficiency being achieved at the expense of the consumer through the imposition of tariffs and consumption taxes. In the Orient, Japan has attained self-sufficiency by the development of a sugar industry in her Asiatic colonies, and India, the world's largest producer of sugar, has fostered her cane industry until she is rapidly approaching that state.

It is easy for the student to grasp that protection through tariffs, quotas, and bounties has been given for the purpose of promoting the sugar industry in importing countries or in countries desiring self-sufficiency. It is more difficult to understand why government aid has been given in some countries to stimulate sugar production in order to have a yearly exportable surplus. The answer to the riddle is that some governments, desiring to obtain foreign exchange abroad and to "make work" at home, foster an artificially high domestic sugar price through tariffs and import prohibitions and at the same time dump domestic surpluses at the low world price. Export bounties to sugar producers are paid to cover the loss on sales abroad. Australia with cane sugar and Germany with beet sugar afford the outstanding examples of sugar dumping, accomplished through an agreement between the government and the industry. In Australia intervention has taken the form of a virtual monopoly over the production and distribution

of cane sugar, including a prohibition of imports and a bounty for exports. In many beet producing countries—Czechoslovakia, Germany, Hungary, and Poland—government has raised the internal price of sugar above the world parity through tariffs, outright prohibition of imports, or taxes with special rebates, while the exports of sugar are made at the world price. Government has placed the sugar industry in these countries on the basis of quasi-public utilities.

The effect on the world sugar market of these various national aids, restrictions, and export bounties was reported by the Department of Agriculture in 1933 in its memorandum to Congress, "World Trade Barriers in Relation to American Agriculture." The summary of the findings shows that between 1925 and 1930 production in importing areas, such as England, increased by 2,000,000 tons, while the exporting countries, both beet and cane, continued to expand their output. Unsold sugar piled up by over 3,000,000 tons and prices fell disastrously.

Technological Changes

It would be an oversimplification of a difficult problem to attribute all world overproduction in sugar between 1925 and 1930 to artificial stimulation of beet sugar production. A complete appraisal must include the technological changes which occurred throughout the world, increasing the production of raw cane sugar and reducing its costs. The growing of sugar cane, and its subsequent conversion into sugar, has always lent itself to the applied sciences of agronomy and industrial chemistry. Of all agricultural pursuits, sugar production is the most industrialized. Throughout the world—in the well-known Louisiana Sugar School at Baton Rouge, in the experimental stations of the Federal government in Louisiana and Puerto Rico, in the

experimental stations of the Hawaiian Sugar Planters Association, and in the station supported by the Dutch planters in Java—there has always been constant research to improve the cane yield per acre and to reduce costs of cultivation and conversion.

Experimentation has resulted in new varieties of heavier and sweeter canes. Selected breeding has developed varieties relatively free from the diseases which in the past have taken a heavy toll of the crop. And, finally, more intensive cultivation, including the use of fertilizers and irrigation, has increased substantially the production per acre. Hawaii and Puerto Rico are examples of areas where intensive cultivation has been applied, and Java has made most headway in the development of improved varieties of cane.

When the cane reaches the sugar house, the amount of sugar obtained from it depends not only on the amount of juice in the cane and its sucrose content but also on the efficiency of the extraction processes. In the late nineteenth century the sugar house was a fairly primitive affair and the amount of sugar extracted from the cane juice was relatively small. To obtain a higher extraction, it has been necessary to industrialize the sugar process and develop a system of exact chemical control. Industrialization has called forth an enlarged investment in plant and technical improvements in the evaporating and centrifugal processes. Over a period of time there has been less and less cane juice left in the waste product, bagasse, and less and less sugar left in the liquid by-product of the industry, black strap molasses.

Intensive industrialization in the sugar industry did not come about simultaneously throughout the world, but appeared first in those areas in which economic, agricultural, and political conditions were particularly favorable. These

conditions were present to a high degree in Hawaii in the early years of this century. In Cuba, likewise, the industry became modernized before the War, but between 1921 and 1930 a powerful stimulus was given to the industrialization of the Cuban industry by the large-scale entrance of American capital. In the Philippine Islands, also, intensive industrialization of the industry took place in the twenties. It is reported that the islands increased sugar production 243% between 1923 and 1931, with only a slight increase in acreage under cane cultivation.[8] Modern mills displaced the primitive crushing equipment of the natives.

In 1930 the League of Nations reported upon the technological revolution that had taken place in sugar in the post-war period. After commenting upon the rebirth of the European beet sugar industry, it stated that

> . . . the increase in supply of sugar, as compared to the pre-war days, was due entirely to cane sugar which had passed through a technical revolution and had reduced costs during the whole post-war period. . . . On the other hand, the cost of production of European beet sugar was higher than before the war. Average costs were certainly much higher than the free market price in 1928–1929 and production was maintained and increased only through import duties and bounties.[9]

And then the report pointed out in a striking paragraph the similarity of the situation existing in 1928–1929 in sugar and in another major international commodity, wheat. Both had suffered from excessive economic nationalism, on the one hand, and rapid changes in agricultural processes, bringing increased supplies and lower price, on the other.

[8] *Hearings before the Committee on Finance,* U.S. Senate, 73d Congress, Second Session on S. 2732, 1934, page 105.

[9] *The Course and Phases of the World Economic Depression,* League of Nations, Geneva, 1931, page 52.

The development of this [sugar] industry since the war and its position in 1928–1929 offers great similarities with that of the wheat growing industry. The stimulus to production outside Europe given by the war, the technical progress which reduced costs only in certain regions, the refusal to let prices drop and lead to a restriction of output in regions with high costs, the consequent limitation of the free world market and the increase of stocks under the influences of efforts to maintain prices are aspects common to both industries and of importance as affecting their position and prospects in the following years.[10]

THE SUGAR DEPRESSION AFTER 1929

In the autumn of 1929, when the overture of the international depression was being played in the wild confusion of the New York Stock Market, the world sugar industry stood extremely vulnerable to the economic dislocation which was to follow. Sugar prices had declined in the international markets long before the financial depression unfolded *because the pre-depression dislocation in sugar arose from politically stimulated overproduction and from rapid technological changes, not from underconsumption.*

Thus, it was inevitable that the crash of the world economic structure would react drastically upon the industry. Caught in a weakened condition, it was exposed to attack on a triangular front. First, the world depression brought a decline in consumer purchasing power in all countries (but obviously not in the same degree or at the same time); hence the quantity of sugar consumed each year tended to be reduced.[11] The fall in consumption was not only the result of reduced purchasing power but of the fact that retail prices of refined sugar remained high. Consumers within the tariff walls of protected areas did not find their

[10] *Ibid.,* page 53.

[11] Whereas the world consumption of sugar is reported to have increased about 4½% a year before the depression, beginning in 1930 consumption pursued a downward trend. As estimated by Dr. Gustav Mikusch in the *Memorandum on Sugar,* prepared for the Economic Committee of the League of Nations, page 48.

sugar expense declining with other food prices. Secondly, sugar, always one of the outstanding world speculative commodities, along with wheat, rubber, and coffee, was depressed in the market for "futures." All buyers, whether retailers, wholesalers, importers, or refiners, desired to operate with a minimum of stock, and they refused to make forward commitments in a falling market. Raw sugar piled up in the important exporting centers of the world, e.g., Cuba and Java. Speculative reaction, the indisposition of buyers to take inventory risk, and the sympathetic fall of all raw material commodities acted as price depressing factors, and by 1932 the price of sugar was but a quarter of what it had been in the 1923–1925 period. And lastly, the world depression stemmed the flow of loans from London and New York to the semi-tropical producing areas and the props were knocked out from under the financing of the current sugar crops. Specialized sugar producing areas and their governments became progressively distressed.

Under the theory of international free trade idealized by the economic theorists of the nineteenth century, the unfettered interplay of economic factors might have brought about a rebalance of sugar supplies to demand through the automatic expulsion of the high-cost producing areas. The beet production of Europe and the United States would have been called to a halt and the stored-up cane sugar surpluses would have flowed into the world markets to meet the deficit. But in the complex of a universally controlled sugar industry such readjustments could not take place, and the lowest cost producers in the world, Cuba and Java, were forced to reduce their output. The free traders of the nineteenth century would have viewed with alarm the economic "insanity" of the stimulation of the world's beet sugar industries, bringing about the economic anachronism of a reduction of production in the sugar bowl of the world,

Cuba. But politics, not economics, was running the sugar machine, and as some governments had overstimulated production, so some governments took a hand to restrict and limit production in an attempt to regain a balance in the world markets. Cuba led the way in this restriction; President Machado became the dictator of the industry.

Just as the crisis in sugar antedated the world depression of 1929, so Cuba, the largest exporter of sugar to the world market, seeing the handwriting on the wall—a closing of her United States and European markets—made a pre-depression attempt to readjust her supplies. The crop was reduced 10% in 1925 and 1926, and output in the next two years was further restricted. In 1928 Cuba was able to reach an understanding with Germany, Czechoslovakia, and Poland to restrict export of their beet sugar to the world markets for that crop year. The amount of the supply affected, however, was negligible in terms of the world's output. Restriction by Cuba, either alone or in cooperation with those countries, could not obtain the desired result in face of the increasing production in Java and the Philippine Islands, and the decreased consumption in Europe in 1930.

With the advent of the world depression Cuba renewed her efforts. As a result, the Chadbourne Agreement was negotiated between the major cane sugar exporters, Cuba, Java, and Peru, on the one hand, and the beet sugar exporters, Germany, Poland, Hungary, Belgium, Czechoslovakia, and Yugoslavia, on the other. By this agreement, definite export limits were fixed for each sugar exporting country for a period of five years, and current excess supplies were segregated to be marketed over a period of time. The agreement provided in great detail for an increase in export quotas in case the world price rose to levels above 2 cents a pound. Hopes for such a happy price situation

were too sanguine. The co-signers of the agreement controlled but one-half the world's sugar, and although they effectively reduced the exportable supplies available for the market, the advance of production in the areas outside the agreement offset this reduction. Between 1929–1930 and 1934–1935 the area under control through the agreement reduced its production by approximately 50%, whereas the uncontrolled areas, primarily the British Empire and the United States and its islands, showed an increase of approximately 20%.

WORLD PRODUCTION OF SUGAR UNDER THE INTERNATIONAL AGREEMENT
Quintals
(000,000 omitted)

	1929–1930	*1934–1935*	*Percentage Change*
Controlled Area	121	62	−48.8%
Uncontrolled Area	136	162	+19.1
World Total	257	224	−12.8
Cane Sugar	172	136	−20.9
Beet Sugar	85	88	+ 3.5

Source: *World Economic Survey*, 1934–1935, League of Nations, Geneva, 1935, page 97.

The Chadbourne Agreement was effective in bringing about a decrease of production and stocks throughout the world. To this extent it was a success; but it did not reach its objective, higher sugar prices. By 1932 the price of sugar had reached an all-time low in both the European and the American markets. This condition was partially attributable to the decrease in consumption, noted above, and to the continuation of the world financial and economic depression. It was attributable in part also to the fact that non-controlled areas, namely, the United States and the British Empire, continued to increase production. "International" economic cooperation failed because it was not truly international.

Today the world sugar market is more restricted than ever before, and prices are at levels below cost in prac-

tically all "unprotected" sugar producing areas. Just as the depression of 1929 did not cause the world sugar crisis, so the progress of recovery since 1933 has not cured it. The world price of sugar has remained at or below depression levels of 1932. Throughout the world, government control has tightened, not relaxed; tariffs and bounties have increased, not decreased; the "free" world market has virtually disappeared. With the Sugar Act of 1934, the United States joined the rest of the world in tightening its hold over sugar.

CHAPTER V

THE NATIONAL SUGAR DEPRESSION

The world-wide depression in sugar brought a slow but persistent decline in the price received by beet and cane producers in the United States and our insular areas, the Territory of Hawaii, Puerto Rico, and the Philippine Islands. The gap between the world market (London) and the national market (New York) was bridged by Cuba. She sold a portion of her crop (about 25%) in the world market, and, as a consequence, the price of her sugar in New York tended to equal her price in London. This world price, plus the United States duty on Cuban sugar, set the returns to agricultural producers of beets and cane inasmuch as their sale contracts with processors (cane mills or beet factories) are of a participating character, i.e., the higher the price of raw sugar in New York, the higher the price of the farm product. But gross agricultural incomes were affected not only by the unit price of sugar but by the physical volume of beets and cane produced. If our traditional tariff policy, as a result of the world depression in sugar, failed to provide a protected price and a satisfactory volume of production, it would be changed or modified.

But Cuban producers must find a place in the sun also. Our pre-war sugar policy assumed that protection to domestic and insular interests was to be provided without violating the obligations of our commercial and political treaties with Cuba following our intervention there at the time of

the Spanish-American War.[1] This meant that Cuba's gross sugar income, price and volume, as well as that of the domestic and insular producers, had to be given consideration in evaluating the success or failure of our traditional tariff policy.

In short, and anticipating the central point of this chapter, the tariff system after 1925 failed to gain the objectives of our sugar policy so easily attained before the War. As a result, the method of aiding the industry through tariff protection had to be rejected. The futility of the tariff as a method of protection under the new world conditions was manifested in the sinking of the New York (duty-paid) price, even though the tariff was raised three times, and the tremendous expansion of production in our insular areas which made drastic inroads into the shipments of Cuban sugar to the United States. Before tracing the manner in which these results came about, it is necessary to review the events in the national market up to 1929, the year introducing the world collapse in all commodities.

FROM THE WAR TO 1929

Before 1914 the world price of sugar fluctuated narrowly around a level which, when raised by the United States tariff, brought remunerative prices to American producers.[2] During the war period the price of sugar was controlled by the national government, and as a consequence the importance of the sugar tariff was negligible. Under war conditions the world price gave liberal protection in and of itself, and the government's energies were directed to the war problem of how to increase output rather than how to raise prices.

[1] The character of our commerce and political relations with Cuba is described in Chapter XIV.
[2] See Chart I.

After the War the price of sugar continued relatively stable until government control was terminated in November, 1919. Then prices jumped spectacularly from about 7 cents to over 20 cents in May of the following year, and sugar, along with other basic agricultural commodities, experienced a furor of speculation. The post-war boom broke in the late summer of 1920 and the price of sugar fell to about 3 cents in January, 1922. This sudden and dramatic deflation in sugar prices marked a transition from the prosperity of the war years and the question arose as to the proper method of protecting the sugar industry during years of peace.

The problem of sugar protection was merely a minor part of the larger national issue of how to aid a deflated peace-time American agriculture. The special session of Congress in 1921, called hurriedly for the purpose of increasing tariff protection for agriculture in general, raised the duty on Cuban sugar from 1 cent to 1.60 cents, and the following year the regular session of Congress increased that protection further by raising it to 1.76 cents per pound. In the agricultural depression year of 1922 the world price of sugar plus the duty brought a nêt price to the producers of over 4½ cents which, in terms of other farm commodities, was remunerative to producers and compared favorably with the pre-war situation. The sugar tariff, if high enough, still worked.

The world price of sugar continued to rise in 1923 and 1924, the duty-paid price in America for the two seasons averaged approximately 6 cents, and the price of refined sugar went up to war-time controlled levels. As a result, the tariff system was considered by some to be working not well but too well, and consumers cried for relief. On March 27, 1923, President Harding wired the Tariff Commission as follows:

> Have the Tariff Commission make an immediate inquiry into the relation of the sugar tariff to the current prices of that commodity. It is difficult to believe that the duty on sugar can have any part in making the abnormal prices which prevail, but if the Commission finds that there is any ground for believing the duty to be even partially responsible, I shall be ready to proclaim a reduction in duty as provided by law.[3]

The Commission reported that the rise in price, as was clear to students of sugar economics,

> . . . was due to causes not connected with the American tariff. On the rapidly rising sugar market in the United States . . . price factors other than the tariff have been controlling.[4]

These other price-controlling factors were mainly those surrounding the world price which at that time was firm and rising.

In the spring of 1923, then, the major facts surrounding the American sugar situation were as follows: the prices of raw sugar and refined sugar were at levels substantially higher than had prevailed before the War, the duty on Cuban sugar in effect before the War had been increased from 1 cent to 1.76 cents per pound, and the returns to continental producers of sugar beets and sugar cane, as well as to the insular planters, were higher than at any time in history except during the War. And, finally, high world prices and two increases in the duty had raised inordinately the price to consumers.

In the light of all these circumstances, the Tariff Commission took steps to ascertain whether the duty on Cuban sugar was "excessive," that is, greater than the difference in costs between Cuban and domestic producers. An investigation was ordered in March, 1923, under the terms

[3] *The Relation of the Tariff on Sugar to the Rise in Price of February–April, 1923,* U.S. Tariff Commission, Washington, D. C., 1923, page 1.
[4] *Ibid.,* page 14.

of the so-called flexible provisions of the Tariff Act of 1922. A public hearing was held in January, 1924; "the stenographic record of the testimony taken at the hearing aggregated 1,557 typewritten pages," and over $100,000 was spent in collecting cost data.[5] In July, 1924, the majority of the Commission recommended to President Coolidge that the tariff on Cuban sugar be reduced from 1.76 cents per pound to 1.23 cents per pound, but subsequently (June 15, 1925) the President announced that he would not act upon the recommendation. In stating his reasons for not following the finding of the Commission, he wrote:

> After full consideration of all the facts shown in the reports of the members of the Tariff Commission, I do not find that differences in cost of production are sufficiently established under present conditions to warrant any change from the present duty.

According to the law, this statement would have been sufficient, but the President went on to explain that

> It is important that as a nation we should be independent as far as we may of overseas imports of food.

He added that

> The interest of the consumer will in the long run be served only by the ample supply of the product. This can only be assured by the maintenance of our beet sugar industry. . . .
>
> I do not believe that we can maintain such reasonable prices [5½ cents per pound] for refined sugar if we destroy our domestic industry.

And finally,

> . . . The farmer is entitled to share along with the manufacturer direct benefits of our national policy of protecting domestic industry.[6]

[5] *Sugar: Report of the United States Tariff Commission to the President of the United States,* Washington, D. C., 1926, page 7.
[6] *Ibid.,* pages 216–218.

The flexible tariff provisions of the Act of 1922 established a standard for tariff rates, imposing upon the President the responsibility of adjusting individual rates upward or downward after the Tariff Commission had determined that such action was necessary to equalize the costs of production in the United States and in the principal competing countries. In short, the amount of protection was to be tied to differences in cost. When this principle was given expression in the Tariff Commission's recommendation for a reduction in the sugar duty, it was nullified by the President who stated that in his view the Commission had not appraised the facts correctly, and that regardless of the facts, such a reduction would have been harmful to producers and consumers. This elaborate administrative effort, culminating in recommendations not acceptable to the President, had extended from November, 1922, to June, 1925, over 2½ years. With the President's refusal to act on its findings, the use of the difference-in-the-cost-of-production theory was doomed so far as sugar was concerned. President Coolidge substituted his judgment for that of the Commission, and part of that judgment was that a reduction in duty, even if called for by law, would have been harmful to American producers. This decision was a shock to the advocates of the flexible tariff theory who recognized generally that the sugar tariff could be raised easily but lowered only with great difficulty. Any hope that a sugar tariff could be made scientific and objective by a formula of "differences in costs" disappeared. Under the Sugar Act, the tariff system was found lacking and was scrapped in substance, although partially retained in form.

AMERICAN AREAS FROM 1929 THROUGH 1933

With the rapid advance of the world deflation in sugar after 1929, there was strong pressure on Congress for

further protection to offset the reduction in price. In 1930 the United States joined the world in intensifying protectionism by passing the Smoot-Hawley Tariff Act under which the duty on Cuban sugar was raised to 2 cents per pound. This increase failed to "protect" producers, however, inasmuch as the base, the world price, was sinking faster than the tariff could be raised. At that time (June, 1930), all commodity prices in the international markets were falling rapidly as a part of the world economic depression and sugar dropped until it had reached the all-time world low level of under ½ cent a pound (May, 1932). With this extremely low price, the duty of 2 cents was powerless to afford a protection to American producers comparable to that of the pre-war years.

In June, 1932, then, the price of sugar before duty was the lowest in history, the duty was the highest since 1890, and the duty-paid price was under 3 cents, the lowest on record. This price brought low returns to continental sugar beet and sugar cane producers and comparably lower receipts to our insular planters. On the other hand, the duty of 2 cents served as an irreducible minimum preventing a price decline in beet and cane as severe as that suffered by wheat, corn, hogs, and other American staples. The comparative well-being of the sugar producers was attributable not only to the existence of the duty as an irreducible price minimum, but also to the fact that their volume of production was not reduced but enlarged in this period.

The great depression in American agriculture did not affect the volume of output of all agrarian groups in the same manner. Three sets of circumstances appeared to be present. First, some agricultural groups were forced to curtail their output because the buyers of their commodities would not continue to build up unsold surplus stocks. This was particularly true of farmers producing fruit and vege-

table specialties to be canned. The canners, faced with a decline in consumption due to shrinking purchasing power, placed limits upon their yearly pack so that excessive stocks would not be accumulated.[7] Secondly, production of many basic agricultural commodities, such as wheat, cotton, and pork products, was not reduced substantially during the depression. Excessive production was absorbed, in the form of unsold stocks, by the processors and exporters. Farmers could always sell their cereals and meat products at a price, and the buyers carried the excessive inventories at their own risk. Lastly, a relatively small but important segment of agriculture actually increased its output and was able to sell its products in the American market because foreign countries had to jump the hurdle of a protective tariff and high transportation expense. Sugar is the outstanding example of this class.

The decline in the price of sugar after 1929 failed to bring a reduction in the volume of production of domestic and insular producers. On the contrary, their sales from 1929 to 1933 advanced by 1,284,000 tons, or 41%, at a time when the American consumption of sugar was dropping year by year. Obviously, this combination of a contracting United States consumption and an expanding United States supply (continental and insular) tended to push Cuba from the scene. The table on page 65 states summarily the condition from 1929 to 1933.

The bulk of the expanded supply came from the western beet states, the Philippine Islands, and Puerto Rico. The enlargement in beet production arose primarily from the fact that prices of other agricultural commodities which

[7] The best example is found in the case of the California cling peach industry, which since 1929 has been under a program of actual restriction by cooperative efforts of California canners and orchardists. This industry made the attempt to readjust its output in harmony with market requirements.

ECONOMIC FACTORS OPERATING TO DISPLACE CUBAN SUGAR IN THE UNITED STATES MARKET
(1929 to 1933)

		Short Tons, Refined Basis
Decrease in United States Consumption		606,000
Increase of United States and Insular Deliveries:		
Philippine Islands	483,000	
Puerto Rico	309,000	
Hawaii	57,000	
Continental Beet and Cane Area	435,000	1,284,000
Total Decrease in Consumption and Increase in Deliveries		1,890,000
Total Reduction in Cuban and Foreign Deliveries		1,890,000

Source: *Report to the President on Sugar* 1934, pages 160–161.

could be grown alternately in the beet area—wheat and vegetables, for example—fell to unprecedented low levels. Farmers turned to the cultivation of beets as a relatively remunerative crop. Acreage under beet cultivation increased by a third and idle beet sugar factories were reopened. The year 1933, conservatively characterized as the most chaotic in American agricultural history, saw a beet acreage at record high levels, a time when the price per ton of beets, reflecting the low price of sugar, had fallen to record low levels. Sugar beet prices were not profitable; but in comparison with the prices of other agricultural commodities, which had dropped in the same period by nearly 60%, the decline in the price of beets (about 30%) left beet producers in a relatively favorable position.

Unlike the beet area, the increase in sugar production in Puerto Rico and the Philippine Islands was not the result of an expansion in acreage under cultivation but of technical improvements in both field and factory. The insular industry underwent a great technological improvement at a time when the sugar industry throughout the world was suffering from overproduction, and when Cuba,

Java, and other "unprotected" areas were making a heroic attempt to reduce their output in line with the requirements of a shrinking world market.

In addition to the impetus provided by rapid technical changes, the insular plantations spurred production in a desperate effort to offset the financial effects of a declining unit price of sugar. The heavy overhead expense arising from the large fixed investment in the plantation system made some such attempt imperative and in sugar, as in the wheat production of Canada and the United States, the general effect of dropping prices was not to discourage production but rather to stimulate it. In short, economic balance of the sugar industry, in the United States and throughout the world, was not to be easily regained through the competitive force of lower prices. Then, as now, normal competitive forces were not permitted to operate.

To summarize, domestic sugar prices between 1929 and 1933 fell with each decline in the world price, but this recession was partially offset by raising the tariff in 1930. The sugar duty, expressed as a percentage of the value of sugar, rose to record high levels. The price of the product was maintained at an irreducible minimum of approximately 3 cents per pound which, in comparison with other agricultural commodities, was relatively remunerative. In addition, the duty-paid price not only made possible the maintenance of the current volume of production but encouraged its increase over 1929 levels. This increase was not shared equally but went largely to the western beet area, the Philippine Islands, and Puerto Rico. Louisiana, the highest cost area in the American system, could not enlarge volume because of the natural limitations surrounding her industry, and the state suffered drastically from the decline in price.

This opportunity to increase production of beets and

cane placed domestic and insular sugar producers in a favorable position compared with other farmers, and it might have been argued, in 1933, that with an improvement in general business conditions the tariff system of protection could have been continued. If the condition of our continental and insular producers had been our *only* concern, the tariff system would probably have remained feasible; but Cuba's position was increasingly jeopardized and made abandonment of that tariff policy inevitable. At this point, therefore, it is necessary to turn to the dilemma faced by America's "other colony," Cuba.

CUBA FROM 1929 THROUGH 1933

With each drop in the world price there was a corresponding decline in the income received by Cuba for her sugar. Her crop-year price is a composite of three market prices: the price received upon the sugar entering local consumption, about 10%; the price received for sales in the United States market, about 75%; and that received for the marketings in the European market. All three prices tended to be the same, after making allowances for transportation costs. The price in the United States of Cuban sugar, before duty, and the composite price of the three markets, are given for certain selected periods as follows:

	Cuban Price, New York Market	*Cuban Composite Price (New York, London, Havana)*
1914	2.75¢	2.52¢
1923	5.24	4.98
1929	2.00	1.73
1932	0.93	0.72

Source: *Report to the President on Sugar*, 1934, page 176.

Even in 1929 Cubans were receiving a price 33% less than that prevailing before the War, but after 1929 the world price dropped drastically and returns to the Cubans were

further decreased by approximately one-half. By 1932 the impact of the world crisis upon the Cubans was to give them an average price of less than 1 cent per pound for all the sugar they sold, one-third of the pre-war price. It is clear that this fact alone would cause a severe dislocation in the economic and political life of the island.

Cuba, after 1929, was in an extremely vulnerable position. Unlike the protected sugar areas of the United States, she could not escape the disastrous effects of price declines by enlarging production. On the contrary, each increase in the shipments to the American market of Puerto Rico, the Philippine Islands, and the western beet area cut into the deliveries of Cuban sugar to the mainland. Furthermore, her difficulties were intensified by the fact that during the depression American consumption of all sugar decreased by over 600,000 tons. In other words, she contributed a smaller percentage each year to our market which was shrinking in size. The result of these two forces was that the volume of Cuban sugar sold in the American market was cut down by about 1,900,000 short tons. And at the same time, Cuba received for this sugar a unit price one-half of that prevailing in 1929.

Europe might have offered a possible avenue of escape from Cuba's disastrous position in the American market, but with the rising tide of sugar protectionism on that continent, this avenue was closed. As a consequence, Cuba was compelled to accept a policy of restriction of production for her basic crop, and economic disorder, political unrest, and violence were the results.

THE FAILURE OF THE TARIFF

It would be straining the facts to say that no country in the world can protect its sugar producers under a rigorous tariff policy. Quite on the contrary, most

European countries raise the price of sugar high enough within their tariff walls to assure remunerative returns to their agrarian interests. This price enhancement through the tariff alone is relatively simple in some European countries—for example, France—because there is but one group of producers to be protected, the small domestic farmers.

In the United States, however, the tariff affects not only the cane producers of Louisiana and the beet producers of the West, but also the producers in the lower cost areas, the Territory of Hawaii, Puerto Rico, and the Philippine Islands. Raising the tariff would not afford adequate protection to high-cost continental producers without at the same time stimulating production in these offshore areas. This is exactly what happened after 1929 and the result was an oversupply of sugar for the United States market with a consequent crowding out of Cuba. Enlarged American production was not curbed by low sugar prices. On the contrary, the Philippines and Puerto Rico increased output at a time when the sugar world was struggling to relieve itself of excessive supplies. The benefits of our sugar system were not being shared equitably among the various areas as they were before the War. Our insular areas enjoyed a disproportionate share of those benefits and at the same time our continental producers did not receive an adequate income. Cuba found less and less shelter in the American market.

America's sugar policy between 1914 and 1933 had followed in the footsteps of those of other protectionist countries. First, during the War we stimulated the cane industry in Cuba by requesting her maximum production for war-time purposes. Secondly, through the increases in the tariff in 1921 and 1922, we aided the recovery of the beet sugar industry to its pre-war levels and stimulated

the production of cane sugar in our insular areas. Thirdly, in not reducing the tariff, at the recommendation of the Tariff Commission, we gave a further impetus to our domestic and insular production. Fourthly, after the crash in all commodity prices in 1930 and the aggravation of the weakened international situation by a drop in demand, we, along with other countries in the world, attempted further to assist the sugar industry by raising the tariff. We did this knowing that the intensive technological development in the Philippines and in Puerto Rico were certain to result in a larger output. Fifthly, this advance in insular production pushed Cuba out of our markets. In short, we gave her the same treatment she received from Europe.

By March, 1933, when a new Administration was inaugurated, the failure of the tariff system as a method of aid was apparent to all interests. The price of sugar for that month, duty-paid (2.96 cents), was close to its extreme low for all time. The duty on Cuban sugar (2 cents) was the highest since 1890 and the *ad valorem* equivalent of this duty (over 200%) far exceeded that of any other year. Cuba's price of under 1 cent per pound, in conjunction with the restrictions on the size of her crop, brought economic and political instability. At the same time, the prospective crop of 1933 in the continental and insular areas reached an all-time high, limiting Cuba's American market to 1,601,000 tons. The forecast of the sugar crops for 1934 disclosed a continued expansion in the continental and insular areas which would further depress the farm price of beet and cane. In addition the refining industry, without tariff protection on refined sugar, was crippled by the increase in beet sugar production, on the one hand, and the importation of over 700,000 tons of offshore refined sugar, on the other. In view of these facts, it was generally conceded that the tariff method of assistance

was a failure when faced with the world depression in sugar.

In 1933 the Tariff Commission,[6] which had studied the national sugar economy from all sides, acknowledged the failure of our sugar policy. It analyzed the prevailing situation and outlined possible substitutes for the traditional method of assistance. Five conclusions were drawn:

(1) The theory of setting the duty equal to the difference in costs of domestic and Cuban producers was erroneous.

> It is evident from our study that the duty on sugar cannot justly be based on the difference between domestic and foreign cost of production. The situation in Cuba, which is the chief competing foreign country, is such that the higher the American tariff may be, the lower are the costs of producing sugar in Cuba.

(2) To raise the tariff would not solve the problem.

> Cuba must fix the price at which she sells sugar at a point which will enable her product to enter the American market. The result is that the price has gone down to a point which is disastrous both for American and Cuban producers. It is evident that no increase of the American tariff can relieve the resulting situation in this country or in Cuba.

(3) The prevailing price of sugar did not afford protection to the domestic industry or to Cuba.

> For the reinstatement of comparative prosperity in the domestic industry, and also to such an extent in Cuba as may enable her again to become a customer on a considerable scale for American exports, it is necessary that the price of sugar should be somewhat higher than has prevailed recently.

[6] In its letter of April 11, 1933, signed by its chairman, Robert L. O'Brien, as reproduced in the *Report to the President on Sugar*, 1934, page 25.

(4) In order to raise the price, supplies to the American market must be limited.

To raise the price it will be necessary to limit the supplies of sugar offered for sale in the United States. This cannot be done by an increase of the tariff but must be done by limiting imports to this country. Such limitations should be imposed not only upon Cuba, but likewise upon the Philippine Islands and it might be extended . . . to the production of sugar in Hawaii, Puerto Rico and, if necessary, in the continental United States.

(5) The Cuban duty should be reduced.

Should some such quota system meet with the approval of the administration, the duty on Cuban sugar might be reduced on a limited importation by such amount as the government might find expedient with a view partly to revenue and partly to the restoration of the purchasing power of Cuba.

The plan suggested by the Tariff Commission in 1933, including a limitation of supplies through a quota system and a reduction in the Cuban duty, later was embodied in the Sugar Act of 1934, with the important added feature that direct benefit payments to domestic and insular producers were to be made from funds arising through a processing tax on sugar. The proposal to attempt a new method of sugar protection with the quota system reflected a world trend in the relationship of government to the sugar industry. In every important producing and consuming country between the World War and 1932, there was a growing disposition to fortify tariff systems and to give direct aid in the form of quotas, export bounties, and outright subsidies. Also, in the United States, as in other countries, the new form of assistance was to enlarge government's control of the industry. Under the old tariff system, the relationship of the industry to government had

been a relatively simple one; Congress set the tariff rate and the Treasury Department collected the duty at the ports of entry. Under the quota system, direct Federal regulation was to be exercised over the production and marketing of sugar. Effective aid to the industry in 1933 required a planned control, and control inevitably brought increased government power.

Before the new plan was adopted by Congress, however, the sugar industry, at the instigation of the government, attempted to draft a solution to its own difficulties. The nature of the plan recommended by industry and the reasons for its rejection by the government are outlined in the next chapter.

CHAPTER VI

THE STABILIZATION AGREEMENT —INDUSTRY'S PLAN

The now invalidated Agricultural Adjustment Act[1] was passed by a hurried Congress in May, 1933, and a new national policy toward agriculture came into being. The essence of this policy was to raise farm prices high enough to restore farmers' purchasing power to its pre-war level.[2] By the terms of the Act, the lines along which the Secretary of Agriculture was directed to proceed were two. First, he could raise the price by restricting the production of so-called "basic" farm commodities, e.g., cotton, and by making "benefit payments" to producers under contracts providing for such crop reduction. Secondly, he could raise price by restricting the sales of farm products through voluntary marketing agreements with distributors and processors, and Federal licenses could be issued to implement the terms of these agreements.

During the formulation of the Agricultural Adjustment Act in 1933, the Senate (April 18) included sugar beets and sugar cane as basic agricultural commodities, but later (May 4) these commodities were removed by the House.

[1] "An Act to relieve the existing national economic emergency by increasing agricultural purchasing power. . . ." Stat. 31, 1933.

[2] The policy, in part, was as follows: "To establish and maintain such balance between the production and consumption of agricultural commodities, and such marketing conditions therefor, as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period." Section 2(1) of the Act.

The disinclination to include them as basic commodities arose from the fact that the theory of the original farm act stressed the necessity of reducing the burden of farm surpluses available for export, by means of the reduction of crop production. Sugar was an imported commodity and, consequently, an adjustment of production for the purpose of raising the price of sugar would have been economically futile without a correlative limitation upon the imports of sugar from Cuba and other foreign countries. Sugar prices, in short, could not have been raised effectively without a quota system providing a limitation of such imports. But Congress heretofore had not imposed quotas upon foreign commodities, in either sugar or other imports. It was highly unlikely that an overworked Congress, in the national emergency of 1933, would work out the detailed legislation necessary for the establishment of such a quota system.

The fact that Congress failed in 1933 to make sugar a "basic commodity" did not, however, preclude the development of a substitute for the tariff system. The Secretary of Agriculture had the power under the A.A.A. to enter into voluntary agreements with distributors and to strengthen these agreements through the issuance of Federal license.[3] Under this power, the sugar industry, in conjunction with the Secretary, sought to work out a plan for the rationalization of its business by which free competition under a tariff system was to be modified. The title of the plan, the Stabilization Agreement, discloses its essential character. The yearly marketings of raw cane and beet sugar were to be limited voluntarily to antici-

[3] These licenses were to be subject, as decided by the Secretary, to such terms and conditions as were ". . . necessary to eliminate unfair practices or charges that prevent or tend to prevent the effectuation of the declared policy and the restoration of normal economic conditions in the marketing of such commodities or products and the financing thereof."

The Secretary could "suspend or revoke any such license, after due notice and opportunity for hearing, for violation of the terms or conditions thereof." Section 8(3) of the Act.

pated market consumption, and production of cane and beets was to be adjusted accordingly. Economic stabilization of sugar was to be regained and maintained, not through laissez faire under tariff protection, but through voluntary industrial agreement enforced by Federal power. The development by the industry of this Stabilization Agreement, and its subsequent rejection by the government, laid the foundation for the enactment of the Sugar Act of 1934.

In June, 1933, the various elements in the American sugar industry met in Washington with the newly-born Agricultural Adjustment Administration to map out its program. All groups in the industry from Puerto Rico to the Philippine Islands were represented—cane planters, beet farmers, beet processors, cane millers, and refiners.[4] A subcommittee for the drafting of the Agreement was formed, and after numerous conferences and public hearings a loose plan, carrying important reservations and qualifications, was submitted to the Secretary of Agriculture for his approval around the first of September. On October 9, 1933, the Secretary announced that the Agreement was not acceptable. The results of five months of labor by the industry had failed to convince the government that it could, through industrial self-direction, solve its own problems. In time, practically all elements in the in-

[4] The industry was represented by the National Beet Growers Association, representing western beet growers; the Lake States Beet Growers, Incorporated, representing eastern beet growers; the United States Beet Sugar Association and Farmers and Manufacturers Beet Sugar Association, representing the beet factories of continental United States; the American Sugar Cane League of the U. S. A., Incorporated, representing cane growers and processors of Louisiana and Florida; the Hawaiian Sugar Planters Association, representing all elements in the industry in the Territory of Hawaii; Domestic Cane Sugar Refineries, representing the 14 sugar refineries on the seaboards of the United States; the Philippine Sugar Association, representing growers and processors in that island; and the Puerto Rican Producers Association, acting for cane growers and processors of Puerto Rico.

dustry came to realize that the rejection was wise. But the attempt at industrial cooperation was not futile; it brought the leaders of the widespread industry together for the first time since the War and a framework was laid for further action by the government.

THE NATURE OF INDUSTRY'S PLAN

The objectives of the Agreement were to "achieve and maintain such balance between the production and consumption of sugar and such marketing conditions therefor in the United States as will effectuate the declared policy of said Agricultural Adjustment Act."[5] This was to be accomplished in four ways: the price of raw sugar was to be raised; deliveries of sugar from all producing areas were to be restricted under a quota system; the agricultural production of beets and cane was to be limited; and finally, "unfair" methods of competition in the distribution of sugar were to be prohibited.

(1) The Agreement provided that all raw cane sugar shipped to the continental United States was to be sold at a price not lower than that designated by the administrative agency established by the Agreement, namely, the Sugar Stabilization Board. The purchasers of such raw sugar, predominantly seaboard refiners, were to agree not to purchase sugar for a price lower than that so fixed. The fixation of the minimum price was not to be left to the discretion of the administrative agency under the Agreement, the Stabilization Board, but was to be arrived at in the following manner: to the world price for raw sugar, there was to be added the full duty of 2½ cents per pound and the going rate of freight and insurance from Cuba to the Atlantic and Gulf ports.[6] The price of sugar in the

[5] Stabilization Agreement, page 1.
[6] In the case of Hawaiian and Philippine sugar, certain adjustments were to be made for freight charges.

United States was to be the world price plus the full duty, and would be, at that time, half a cent higher than the prevailing price.

To clarify this, it is necessary to recall that the American duty at that time was 2½ cents on all foreign sugar except Cuban, on which it was 20% less, or 2 cents. Before 1910 the price of Cuban sugar in America had been the world price (after adjustment for freight charges) plus the full duty; and Cuba had obtained, using the language of the trade, "the benefit of her preferential." After 1910, however, and particularly in the post-war period, Cuba no longer exported all her sugar to the United States but sent a substantial volume to Europe, and in consequence she obtained the same price for her sugar in both markets (allowing for freight differentials).[7] Cuba, therefore, did not obtain the "benefits of her preferential," and the effective rate of duty on sugar in the United States was not the full duty but the Cuban duty. The raising of the Cuban price by half a cent, under the terms of the Agreement, would augment by one-third Cuban receipts from the American market. This increase would result because at that time the Cuban price would be raised from about 1 cent to 1½ cents per pound.

The benefits to the domestic beet producers of the increase in price would not have been commensurate, however. With a rise of one-half cent in the price of raw cane sugar, the price of refined cane sugar would rise proportionately. In turn, the advance in the price of refined cane would bring an advance in the price of beet sugar. Higher beet sugar prices would bring to the beet farmer, at the typical contract rates between producers and beet factories, a revenue of from 50 cents to 75 cents more per ton. But

[7] After 1926, when the Cuban industry was under government control, the Cuban price in New York was slightly higher than the equivalent world price.

this higher beet price would not be sufficient to provide "fair exchange value," the price objective for all farm products under the A.A.A., and in consequence other steps were to be taken to increase the agricultural producers' return on sugar.

(2) The objective, "To achieve and maintain balance between production and consumption of sugar," was to be attained through a quota system which would limit marketing of raw cane sugar and beet sugar to the estimated yearly consumption in the United States market. The questions, How much sugar should come to the market in any one year? and How should this sugar be divided among the various producing areas? brought forth, as might be expected, sharp differences of opinion in the far-flung sugar industry.

The original intention of the industry was to limit the deliveries for the year ending July 30, 1934, to 6,350,000 tons. This was taken as a "conservative estimate of the American consumption for the year . . ."[8] and was arrived at "after careful study of the official figures, and consideration of the increase in population of the continental United States." It was estimated that in American producing areas and Cuba there was available at that time at least 7,500,000 tons to meet the needs of the market. The plan provided that the difference, approximately 1,150,000 tons, was to be set aside as a reserve to be released to the market in subsequent years.

Haggling, argument, and threats to withdraw were heard around the conference tables over the basis for the division of the consumption requirements among the several producing areas. After the preliminary conferences, and for purposes of discussion and negotiation only, the total quota for the beet and cane producers of the con-

[8] A.A.A. press release, July 3, 1933, page 4.

tinental United States was set at their estimated production of 1933–1934. This quota of 1,835,000 tons was substantially in excess of deliveries in past years. On the other hand, the United States insular areas were to receive a quota of 2,815,000 tons, which was about 95% of their 1932 deliveries and substantially less than the estimated 1933–1934 production. Cuba was to receive an amount equal to the amount she delivered to the United States for 1932, which, as has been stated in the previous chapter, was her record low. The following table gives the "informally reached" basic quotas, the estimate of current production, and the 1932 deliveries for each area:

	Deliveries for Consumption in the United States 1932	*Estimated Production for the United States Market 1933–1934*	*Suggested Quotas*
Continental United States (Louisiana, Florida, and Beet-Producing States)	1,528,653	1,835,000	1,835,000
United States Insular Areas	2,980,712	3,360,000	2,185,000
Cuba and Other Foreign Countries	1,789,045	2,305,000	1,700,000
Total	6,298,410	7,500,000	6,350,000

Source: A.A.A. press release, July 3, 1933, page 6.

This estimate of consumption requirements and their allocation was the fruit of continuous conferences in which great difficulty was met in reaching even tentative agreement. The clashes in industrial viewpoint were so discordant at the public hearings upon the Agreement that recommendations were made to the Secretary by Department of Agriculture officials for postponement of further hearings until final agreement was reached by the industry. The government representatives stated that

Although all parties, representing substantially all branches of the sugar industry in the United States and its insular possessions and areas supplying sugar, expressed themselves in favor of some kind of agreement, the sworn evidence in the record discloses such disagreement and the record includes such extravagant claims from many interests, that we do not feel justified in advising the A.A.A. to recommend that it proceed to redraft the Agreement presented at the hearing. . . .[9]

Shortly after this statement was made, the industry, in a letter to the Secretary of Agriculture on August 21, announced that it had reached accord on quotas.[10] Upon analysis, however, this so-called Agreement was found to have been arrived at only by disregarding the fundamental theory that there should be a limitation of sugar supplies to the United States consumption. To placate the dissatisfied beet producers, their quota was increased, but the total amount of sugar from all areas to be made available to the market had been raised from 6,350,000 to 6,725,000 tons. It is clear that a supply of 6,725,000 tons of sugar[11] would have depressed, not raised, the price, and as a consequence the major objective "to achieve and maintain such balance between the production and consumption of sugar as will effectuate the declared policy of the Agricultural Adjustment Act" was defeated.

[9] A.A.A. press release, August 12, 1933, page 2.
[10] A.A.A. press release, August 21, 1933.
[11] The division of this 6,725,000 tons was proposed as follows:

Territory of Hawaii	975,000	tons
Virgin Islands	15,000	"
Puerto Rico	875,000	"
Philippine Islands	1,100,000	"
Cuba	1,700,000	"
Louisiana	250,000	"
Florida	60,000	"
United States Beet Sugar Area	1,750,000	"
Total	6,725,000	"

(3) In addition to the limitation of the marketing of sugar, the Agreement (Section 13) provided for a loose control of production in the various areas. If in any area at the close of a crop year the total amount of sugar available for shipment to the United States was more than 10% in excess of the area's quota, the

> . . . growers and producers of any producing area shall adjust and plan their respective production of sugar so that the amount to be produced during the succeeding contract year . . ., when added to the existing segregated reserve, will not be more than 110% of the amount of the quota of said producing area.

The use of the phrase "adjust and plan," with respect to production of sugar, indicated that no definite limitation of production was anticipated. As the dispute among the various sugar interests became more heated, it was increasingly apparent that the provision for the adjustment of production, stated in vague and general terms, would have been difficult or impossible of enforcement by the Secretary.

(4) Control of price, distribution, and production was capped with a plan for the outlawing of "unfair" methods of competition in the sale of refined cane and beet sugar to ultimate consumers. Section 16 of the Agreement provided for subsidiary codes of fair competition and marketing agreements

> . . . to govern and regulate marketing practices, methods of competition, etc., among the producers, processors, refiners, importers, and handlers of direct consumption sugar [12] substantially in accordance with the principles contemplated by the marketing agreements and/or codes of fair competition for direct consumption sugar filed or made of record with the Agricultural Adjustment Administration.

[12] "Direct consumption sugar" is a technical phrase used in the trade to designate any sugar for immediate consumption, refined or otherwise.

Although the signers of the Agreement could not sanction, sight unseen, the proposed subsidiary codes or marketing agreements, it was anticipated that they were to be adopted as an integral part of the main Stabilization Agreement. The provisions of these correlative agreements and codes, governing the distribution of refined sugar and the labor conditions of the industry, were to be reënforced by licenses issued by the Secretary of Agriculture.

> . . . Any license issued by the Secretary to producers, processors, refiners, importers, . . . shall be conditioned upon the observance by the respective licensees of the provisions of such agreements and/or codes.[13]

These Federal licenses were to be applicable not only to processors, producers, and refiners, but also to brokers, warehousemen, and importers engaged in the handling of sugar in interstate or foreign commerce.

The use of the Federal licensing power for the purpose of eliminating unfair trade practices would have placed the Secretary of Agriculture in an extremely delicate administrative position. For years the refining industry had been highly competitive, and it had become common practice for its members to give secret rebates, concessions, and special discounts.[14] In 1926 the Sugar Institute had been organized by the industry for the purpose of abolishing such commercial malpractices, but two difficulties had been encountered. The "ethics of the industry" had not been complied with by all members of the industry; and, secondly, the District Court of the United States had declared some of the Institute activities at variance with the anti-trust laws and had enjoined its major operations.[15]

[13] Stabilization Agreement (Section 16).

[14] See Chapter XV.

[15] Subsequently the case was appealed by the Institute to the Circuit Court of Appeals, Southern District, New York (15 F. Supp. 817). On March 30, 1936, the U. S. Supreme Court upheld the adverse decisions of the lower courts (*U. S.* v. *Sugar Institute,* 56 S. Ct. 629).

Consequently, the Secretary, in seeking to enforce the marketing codes of the sugar industry, would have been attempting to accomplish through Federal license what the refiners had failed to do through their Institute, and he would have been called upon to enforce some trade practices which the Court had declared to be contrary to the anti-trust laws.

THE REJECTION OF THE PLAN

On October 9, 1933,[16] the Secretary of Agriculture announced that he would take no action on the proposed basic sugar marketing agreement. He stated, after a conference with the President of the United States, that

> No action on the proposed Sugar Marketing Agreement is practicable at this time because of changes in conditions, such as uncertainties in Cuban production, and because of difficulties of operations disclosed by further study of the proposed agreement.

In supplementing this statement, the Secretary commented that

> One of the difficulties causing him to take no action . . . is that it [the Agreement] would have tended to increase rather than remove the present disparity in agriculture's purchasing power.

The Secretary went on to explain that the increased cost of sugar to 6,000,000 domestic farmers as consumers would be more than $14,000,000 "as against benefits to 42,000 [continental] farmers of only about $10,050,000." In addition, he stated flatly that "the agreement appears . . . to emphasize unduly the interests of processors rather than the income of farmers." Further,

[16] See A.A.A. press release of that date.

> The government should not under agreements of this kind undertake to relieve processors, refiners and others of provisions of the Anti-Trust Laws unless definite protection is provided for consumers with greater assurance of benefits for farmers.

The official reasons given for the rejection of the industry's plan are not entirely convincing. It is fair to assume that the government realized—during the endless conferences held in the torturously hot summer of 1933—that assistance to sugar farmers would call for a rise in sugar prices and higher profits. Furthermore, any agreement which involved price fixing, limitation of deliveries, restriction of production, and the prohibition of "unfair" trade practices, would involve industrial action at variance with the traditional spirit of the anti-trust laws. The fact that the Agricultural Adjustment Administration fostered the development of the plan for cooperation with industry and then, at a subsequent date, rejected the plan submitted, appears to indicate that the government's policy was not clearly crystallized.

In retrospect, it is clear that the basic difficulties in establishing a workable plan in 1933 for the stabilization of the sugar industry were fourfold.

First, there was no organized "sugar industry." The Agricultural Adjustment Act, under which the Marketing Agreement was to be drafted, defined "industry" as being

> . . . processors, association of producers, and others engaged in the handling, in the current of interstate or foreign commerce, of any agricultural commodity or product thereof. . . .

In certain marketing agreements entered into by the Secretary of Agriculture—for example, the agreement with the California cling peach packing industry—processors were relatively few in number, sectionalized in location, and all performed the same economic function. The Sugar Stabili-

zation Agreement, however, attempted to weld the interests and compromise the demands of probably the widest-spread agricultural industry in America. It attempted to affect the interests and operations of sugar beet and sugar cane producers (farmers) in continental United States and in our insular areas. Furthermore, it attempted to affect the shipments of beet and raw cane sugar by processors in all of the various areas. In addition, the importation of raw sugar by importers, operators, and refiners, the distribution and marketing of sugar by refiners and beet processors, and the subsequent handling of sugar by the hundreds of sugar brokers throughout the United States were to be regulated. In face of its scope, the plan would have been extremely difficult to administer without a high degree of industrial cooperation. Such industrial cooperation was not to be found.

The absence of industrial agreement was evident in that the plan failed to provide either a reasonably effective method for controlling marketing or a sound method for checking the ever-increasing flow of sugar to the United States market. On the first point, it was recognized that sugar prices must be increased not only by making effective the full duty of 2½ cents, but also by limiting the deliveries of sugar to the United States market. This called for an allocation among the various areas of the total consumption requirements estimated as being consonant with domestic needs. The disagreement over the amount of sugar to be supplied from the various areas brought a total allocation which tended to nullify any possibility of an equalization of yearly supplies and consumption. When the industry finally agreed to raise the total of deliveries to 6,750,000 tons in order to satisfy the desire of the beet interests for an increased quota of 1,750,000 tons, the plan for balancing yearly deliveries with consumption was irretrievably

scrapped. In other words, the lack of cooperation within the industry made any agreement on quotas impossible except through raising the deliveries of certain areas to such a high point as to nullify the real object in establishing these quotas.

The vagueness of the terms of the Agreement regarding production control was the second manifestation of lack of industrial coherence. All areas agreed that "the growers and producers . . . adjust and plan their respective production" in order to equate their production with quota requirements. But no specific method of enforcement was outlined, and in view of the manifold difficulties of adjusting production in any commodity, it is clear that such general terms as "adjust and plan" were inadequate. Inasmuch as the Agreement could be terminated or made ineffective (a) by the action of the President, (b) by the action of the industry, (c) by any reduction of the Cuban tariff by Congress or the President, (d) by the possible indisposition of the government to muster its licensing provisions to enforce the deliveries under a quota plan, (e) by adverse court action, or (f) by the willful withdrawing of any area from the terms of the Agreement in outright violation thereto, it would have been surprising to find any area willing to undertake a plan of long-range production control. Such an area might find itself at a later date with a restricted volume of sugar and the marketing plan a failure. Restriction of production, especially in the cane producing areas, entails a program not of one year but of two or three. In light of these difficulties, it is not surprising that the government, in listing the reasons for rejection, should emphasize the fact that "no effective control of production was contemplated." [17]

[17] *Agricultural Adjustment. A Report of Administration of the Agricultural Adjustment Act, May 1933 to February 1934,* U. S. Department of Agriculture, February, 1934, p. 191.

Secondly, the Agreement did not afford sufficient assistance to Cuba. The American industry's Agreement stipulated clearly that its signers adhered "to the fundamental principle of preserving the domestic market for the products of domestic agriculture or industry" and that "no benefits shall accrue under said Sugar Marketing Agreement to the Republic of Cuba . . . in whole or in part except to the extent that the President of the United States shall from time to time determine within the limitations and subject to the provisions of said Sugar Marketing Agreement. . . ." Furthermore, the Agreement was to be conditioned upon the continuation, and not the reduction, of the Cuban tariff rate then prevailing at 2 cents a pound.[18] There were only two benefits accruing to Cuba under the Agreement; the price was to be raised by one-half cent a pound, and Cuba was to receive the negative benefit of not experiencing a further decline in her exports of sugar to the American market. Cuba's quota of 1,700,000 tons was approximately equal to the amount supplied to the United States in 1932, but nearly 2,000,000 tons under its record high level. With the rising tide of social and economic unrest, culminating in the collapse of President Machado's regime, the yearly benefits to Cuba of about $17,000,000 under the Agreement would have a limited effect in restoring normal conditions.

While the Federal government was developing with industry a program for the assistance of domestic sugar producers, it was engaged in drafting legislation providing for reciprocity treaties under which the tariff on Cuban sugar could be reduced.[19] Anticipation of these developments probably accounted for the Secretary's position that action could not then be taken on the proposed Agreement ". . .

[18] At that time the Tariff Commission was investigating the differences in domestic and insular cost of production and those in Cuba. In 1934 it recommended a reduction in duty of ½ cent per pound.

[19] In June, 1934, with the enactment by Congress of the so-called Trade Agreement Act, the way was paved for such a reduction.

because of changes in conditions, such as uncertainties in Cuban production. . . ." Subsequent developments indicated that the Administration was to be more liberal to Cuba than the industry proposed in its basic agreement.

Thirdly, the plan called for indirect government assistance to agriculture. The Sugar Stabilization Agreement contemplated that the government would assist sugar cane and sugar beet farmers not directly but through the indirect method of raising the price of sugar under the provisions of a broad and loosely-drawn document. The benefits to farmers were to trickle down through higher prices for their farm products, which would result from higher prices received by refiners and processors for the finished product. In raising the price of raw sugar, and hence refined sugar, it was probable that the margin of profits of refiners and beet factories would be increased. There was nothing objectionable in this *per se,* but the sugar beet farmers were not satisfied. They demanded that the Secretary pass upon the "fairness" of the price of sugar beets paid them by the factories. It was agreed tentatively that the Secretary should fix the price of sugar beets as part of the plan to rationalize the industry by Federal license. Section 17(a) of the Agreement provided:

> In consideration of the benefits which will accrue to the beet sugar producers [factories] through the operation of this Agreement . . . it is hereby agreed that equitable division of such benefits shall be made with the beet growers under the supervision of and with the approval of the Secretary; and the determination of the Secretary in adjusting the inequalities and benefits shall be final; and that contracts between beet growers and sugar beet producers for beets . . . shall be subject to the approval of the Secretary.

The beet sugar factories would not agree to lodge such powers in the hands of an administrative official, and, in

signing the Agreement, stated that their signature was made with reservations. If the Agreement had been accepted, the Secretary would have been called upon at a later date to fix the price of beets, but in assuming such an obligation he would have been working in a difficult administrative field without adequate Federal powers to support his decisions.

Fourthly, the Agreement contained no provision for effective enforcement. The sugar industry, in the last analysis, would have had to rely upon the enforcement of the Agreement through Federal license. Effective industrial cooperation through voluntary agreement alone would have been difficult, if not impossible, and the written provisions of the Agreement and informal statements of the members of the industry reiterated the central thought that the government would have to bind it together through its licensing power. In face of the looseness of the Agreement, it was not surprising that the Secretary was reluctant to take the responsibility of bringing recalcitrant members of the industry "into line" through a licensing power which was limited by the Agricultural Adjustment Act to the mere outlawing of "unfair practices and charges." Another aspect of the contemplated use of the licensing power as an instrument of enforcement, which undoubtedly influenced the Secretary's decision, was the provision of the Agricultural Adjustment Act that "the making of any such [marketing] agreement shall not be held to be in violation of any of the Anti-Trust Laws of the United States. . . ." As has been stated, the United States in 1931 had sought a decree under the provisions of the Sherman Act dissolving the Sugar Institute. Appeal was taken to the United States District Court, where legal argument was being heard at the time the industry was formulating its plan. Under the most favorable of conditions any administrative

official would have been apprehensive of using a licensing power to enforce trade practices which might be deemed by another agency of the government to be in violation of the anti-trust laws.

The widely-scattered and inchoate American sugar industry was cognizant in 1933 of the failure of the tariff system of control. Under the terms of an act which brought an unprecedented extension of the Federal power, the industry attempted to formulate a cooperative, not competitive, plan for industrial direction. That plan embodied a retention of the tariff system but at the same time called for price fixing, a restriction of marketings, and curtailment of production. It was doubtful whether a plan of such scope could have had a successful administration. In the first place, it was based on the incorrect assumption that the sugar industry could act as a coherent whole and that the government had legal power commensurate with its heavy responsibility of enforcement; and, secondly, any plan for the stabilization of sugar would have been hampered by the lack of a clear conviction on the part of government as to how far it should permit the industry to regulate itself.

In light of the unhappy ending of some of the rapidly written and ill-conceived codes of fair competition in the summer of 1933, which had been formulated with little appreciation of the difficulties of administration and enforcement, it appears fortunate from the point of view of both the government and the industry that the ambitious Stabilization Agreement received a government veto. Nevertheless, the sugar industry had gathered together for the first time to analyze its problems and had discussed practically all of the questions which were to be raised with the enactment of the Sugar Act of 1934.

CHAPTER VII

THE SUGAR ACT—GOVERNMENT'S PLAN

The industry's inability to draft an acceptable agreement for the stabilization of sugar did not dampen the general demand for a more effective form of government assistance than the tariff. On the contrary, the turn of economic events in the national sugar picture made the formulation of some plan urgent, if not imperative. The anticipation of the adoption of the Stabilization Agreement had tended to bolster the domestic price of sugar. With the rejection of the Agreement by the government, in conjunction with the continuation of a depressed world price, a speculative reaction took place which forced the American price of sugar to near-depression levels, i.e., around 3 cents per pound.

A potent factor in this renewed decline in sugar prices was the size of the prospective 1933–1934 sugar crop in the United States continental and insular areas. The beet crop, normally harvested from October to December, was estimated at over 1,700,000 tons, almost 500,000 tons more than that of the previous year; the production of Puerto Rican sugar was the largest on record, 1,113,000, a third greater than that of the previous year; and the Philippine output reached the enormous figure of over 1,500,000 tons, approximately 250,000 tons greater than the previous season. This continued enlargement of American production, under the stimulus of a protective tariff, presaged a further

decline in prices to domestic producers and a further narrowing of our imports of Cuban sugar.

This oversupply of sugar was the root of a growing pessimism in the industry, a pessimism assuming greater proportions when the first year of business recovery (1933) failed to bring an increase in domestic consumption. Both the industry and the government became convinced that the deep-seated flaws in our traditional sugar system were not to be eradicated by improvement in general business conditions. Positive action had to be taken toward the development of a new and effective method of assistance, and with the rejection of the Stabilization Plan, drafted by the industry, the government was called upon to act.

At this time, April, 1934, the Agricultural Adjustment Act had been in operation for nearly a year. The Secretary of Agriculture, in cooperation with farmers, had successfully inaugurated programs for the curtailment of the production of wheat, cotton, corn, and tobacco in 1934. Benefit payments from processing taxes had been made to producers of these commodities, and the technique of the development of voluntary contracts with farmers for the control of production had progressed in these months of administrative experience. Farmers, acting individually and in organized groups, had become familiar with some of the detailed problems facing the A.A.A. "in the field," and evidence was rapidly accumulating to demonstrate that readjustment of agricultural production and the payment of subsidies, even in cases where millions of producers were involved, was administratively feasible. The theory of agricultural adjustment had materialized into specific plans, and both the government and agriculture were increasingly prepared to cope with the difficult problems which were certain to arise. Thus, in 1934 the legislative

and administrative groundwork was laid for the inauguration of a national sugar program along new lines.

THE PRESIDENT'S MESSAGE TO CONGRESS

Faced with the failure of the Stabilization Agreement, the relapse in sugar prices, a prospective harvest of sugar beets and sugar cane of unprecedented size, and widespread disorder and distress in Cuba, the government turned to the principles underlying the Agricultural Adjustment Act for a partial solution of the sugar problem. These principles could not be applied precisely in sugar as in other commodities like wheat because sugar was an import, not an export, commodity. There was not a continental surplusage, but a continental deficit. The special character of the sugar question and the methods whereby it was to be answered under the A.A.A. were disclosed in the message to Congress on sugar in which the President outlined the nature of the sugar problem and recommended appropriate legislation.

The presidential message was not unlike others relating to economic and social problems which were sent to Congress after 1933. In one all-important particular, however, there was a difference. The sugar problem was an old one and a new plan was advocated to meet the old objective of protectionism. As might be expected, the message raised the central issue involved in sugar, namely, should the industry receive public protection in any form? On this point, the President wrote: [1]

> There is a school of thought which believes that sugar ought to be on the free list. This belief is based on the high cost of sugar to the American consuming public.

[1] The President's message is reproduced in full in *Agricultural Adjustment. A Report of Administration of the Agricultural Adjustment Act, 1934,* page 192.

In this regard he pointed out that the

> . . . annual gross value of the sugar crop to American beet and cane growers is approximately $60,000,000. Those who believe in the free importation of sugar say that the 2 cents a pound tariff is levied mostly to protect the $60,000,000 crop and that it costs our consuming public every year more than $200,000,000 to afford this protection.

Regardless of these costs the President believed that the domestic industry should continue to be protected. His declaration to the effect that "I do not at this time recommend placing sugar on the free list," was qualified, however, by the proposition that future public aid, in whatever form, should be given in such a manner as not to stimulate "further expansion of this necessarily expensive industry." The industry as it then existed should be protected but it was not to be enlarged. By means of quotas limiting the marketing of sugar, the *continental* and *insular* production of sugar beets and sugar cane would be maintained but not expanded. Restriction of the marketings of sugar cane mills and beet factories, in other words, would restrict indirectly agricultural production.

Turning from our domestic and insular producers, the President pointed to the plight of Cuba, which had lost the lion's share of her market in the United States as a result of the increased production under the American flag. He stated that one of the results of this was:

> Cuban purchases of our goods have dwindled steadily as her shipments of sugar to this country have declined.[2]

No further mention was made regarding Cuba in this presidential message, but in commenting on the new sugar program the Secretary of Agriculture stated flatly that the new sugar policy fostered by the Administration

[2] *Ibid.*

. . . takes into account the obligations of the United States towards Cuba as implied by the Monroe Doctrine and specified in the Platt Amendment.[3]

In this statement, and elsewhere, the Secretary spoke in more detail than had the President on the delicate subject of America's obligation to "our heritage from Spain." The old tariff policy, in the Secretary's opinion, had brought about a condition under which we had lost in Cuba an agricultural export market equivalent to the production of 800,000 acres.[4]

It was developed that under conditions of world depression in sugar the tariff system could not protect the interests of American producers without jeopardizing the position of Cuba politically and economically, and eventually drastically reducing our exports to her. A clear summary of the Secretary's position is given in the following paragraph:

The purposes of the Fordney-McCumber Act [the Tariff Act of 1922] and subsequently the Smoot-Hawley Tariff [of 1930] to maintain and increase the domestic market for domestic producers were not accomplished. Instead of bringing the advantage to domestic producers, the tariff merely shifted the American market from Cuba to the insular possessions with resulting economic distress to the sugar industry generally, and loss of markets for Cuban production, which finally came to a climax with the revolution in Cuba.[5]

[3] A.A.A. press release, March 16, 1934. For a more detailed discussion see Chapter XIV.

[4] ". . . The purchasing power of the Cuban people was sharply reduced. This loss of Cuban buying power proceeded to a point that the island no longer provided the once substantial market it had afforded American products. . . . Cuba formerly had been an important customer for many America farm commodities, including butter. . . . Translated into land equivalent, the area required to produce the purchases by Cuba in 1928 was 1,738,300. . . . In 1932, the acreage required to supply Cuba with the purchases of American farm products had declined to 921,033 acres." *Ibid.*, p. 5.

[5] *Ibid.*

THE PLAN OF GOVERNMENT

In light of the circumstances surrounding domestic, insular, and Cuban producers under conditions of the world depression in sugar, the President in his message recommended to Congress that the sugar emergency be met by legislative and administrative action along three lines:

(1) "The Agricultural Adjustment Act should be amended to make sugar beets and sugar cane basic agricultural commodities." In other words, through the device of including sugar as a basic commodity a tax would be levied upon the processing of sugar, and the Secretary would be empowered to compensate farmers for holding their production of beets and sugar cane at a level necessary to make the marketing quotas for sugar. Thus, agricultural protection was to come not only from the traditional tariff upon sugar, but from a direct bounty payable to farmers from processing tax funds. The amount of compensation per ton of beets or cane was not specified in the President's recommendation. But, as explained by the Secretary of Agriculture, the general program would "insure stability to the domestic producers of beets and cane by giving them a virtual guarantee of fair exchange or parity returns . . ." on their production. Under the tariff protective system, the objective had been to protect farm incomes by raising the domestic price of sugar, and hence that of beets and cane, through the tariff duty. Under the "quota-benefit payment" system, the farmer's price per ton, made up of his receipts from the processor plus payments from the Federal Treasury, was to be set at a "fair exchange" price,[6] impregnable to the fluctuations of world prices for sugar or shifts in tariff rates.

[6] In other words, continental producers of sugar cane and beets were to receive a price per ton for their products equal to pre-war prices adjusted upward to make allowances for increases (since 1909–1914) in the price of commodities bought by them.

(2) A further amendment to the Agricultural Adjustment Act was recommended by the President to give the Secretary authority "to license refiners, importers, and handlers to buy and sell sugar from the various producing areas only in proportion which recent marketings of such sugar bear to the total United States consumption." This power to restrict the amount of sugar, cane or beet, which could be sold in the American market was the essence of the quota system and had a twofold purpose: to raise and stabilize its price; and to divide the total estimated sugar requirements in any calendar year among the various producing areas, continental, insular, and Cuban, in a manner more consonant with the marketings that prevailed before the sugar depression. In other words, the rapid growth of production in the insular areas was to be halted and the output somewhat reduced, and Cuba was to obtain an increase over her extremely depressed marketings of 1932.

The President accepted the possible yearly consumption at 6,452,000 tons and recommended that this total be divided among the several areas mainly in accordance with their average marketings in the three years, 1931, 1932, and 1933. The resulting quotas as recommended were as follows (short tons, raw value):

Continental Beet Area	1,450,000
Louisiana and Florida	260,000
Territory of Hawaii	935,000
Puerto Rico	821,000
Philippine Islands	1,037,000
Cuba	1,944,000
Virgin Islands	5,000
Total	6,452,000

The President stated that "the application of such quotas would immediately adjust market supplies to consumption and would provide a basis for reduction of production to the needs of the United States market."

(3) The third step was to reduce the tariff duty on Cuban sugar. This was to be done in two stages. First, the President's plan called for an immediate reduction of one-half cent a pound, from 2.00 cents to 1.50 cents. This reduction in duty had been recommended previously by the Tariff Commission (January 2) and was established by executive order on June 8, 1934,[7] under the so-called flexible tariff provisions of the Tariff Act of 1921.

In addition to this first reduction in the duty on Cuban sugar, the President's message outlined future executive actions as follows: "In the negotiation for a new treaty between the United States and Cuba to replace the existing commercial convention [Treaty of 1903] . . . favorable consideration will be given to an increase in the existing [duty] preferential on Cuban sugar to an extent compatible with the joint interests of the two countries." The President thus informed Congress that the State Department was negotiating a treaty with Cuba which would further reduce the tariff on Cuban sugar. The reduction was finally formulated in the Reciprocity Agreement of August, 1934.

In the two reductions of the Cuban duty from 2.00 cents to 1.50 cents and from 1.50 cents to 0.90 cents per pound, in conjunction with a fixed quota at least 300,000 tons in excess of her previous year's shipment to the United States, Cuba was to receive liberal assistance. Cuba's interests, long adversely affected by European nationalism, world depression, and an ineffective United States tariff policy, were to be promoted immediately and directly by government action as a part of its general plan. The reduction in the Cuban duty, however, was not to be against the economic interest of the American producers of sugar

[7] The findings and recommendation of the United States Tariff Commission are found in the *Report to the President on Sugar*, 1934.

inasmuch as such interest was protected not only by benefit payments but by the price-raising results of the quota system.

THE PLAN BEFORE CONGRESS

When the sugar message was sent to Congress by the President in February, 1934, that body was engaged in the formulation of national legislation of enormous scope and importance, being confronted with problems of the budget, banking, and the heated issue of the public utility holding company. As was repeatedly demonstrated in that session, Congress accepted the leadership of the executive branch of the government to such an extent that recommendations were often embodied in legislation without delay. In consequence, since the program for sugar as outlined by the President did not involve the withdrawal of Federal aid to the industry but only a change in its form, the recommended bill, as contrasted with other matters on the legislative docket, was considered to be a complicated problem of secondary importance. The Chief Executive had requested merely that sugar be made a basic commodity; the Secretary would then enter into voluntary contracts with domestic beet and cane farmers, and sugar would be added to the list of the commodities which were subject to a processing tax. The principal innovation in the recommended legislation was to empower the Secretary to license importers and handlers of sugar in order that the yearly marketings of sugar be equated to the estimated demand, and that the total demand so estimated be divided among the various producing areas. Although the inauguration of such a quota system was a new step in the Federal regulation of interstate and foreign commerce, little evidence was gathered at the public hearings on the Bill [8] that

[8] Before the Agricultural Committee in the House and the Committee of Finance in the Senate.

agricultural producers, processors, or refiners objected to this innovation in the control of business by government.

The evidence indicated, on the contrary, that such a system of rationalization of supplies to the American market had been suggested by the Tariff Commission, had been the basis of the Stabilization Agreement recommended by the sugar industry in 1933, and had received the endorsement of the two government agencies vitally concerned with sugar, namely, the Department of Agriculture, for domestic and insular producers, and the State Department, presenting the case for Cuba.[9] Congress, therefore, receiving from the President a recommendation which had the backing both of the government and of industry, passed with little debate the two amendments essential to implement the plan—designating sugar a basic commodity and providing licensing powers to enforce a quota system.

Quotas

Congressional attention was directed, however, to some of the important correlative problems which would arise in drafting the exact provisions of the legislation. The most important unanswered question was whether or not the President's recommendation on the quotas to be allotted each area should be accepted. The old question arose: How much sugar should each area receive? and the suggested quotas coming from the White House were immediately compared with the amounts arrived at under the rejected Stabilization Agreement. The comparison was as follows:

[9] The Agricultural Adjustment Administration reported that "These recommendations [as formulated by the President to Congress] worked out in cooperation with the State Department and the Agricultural Adjustment Administration, met the objections to the Marketing Agreement plan which originally was proposed, and provided the basis for a new and improved sugar program." *Agricultural Adjustment. A Report of Administration of the Agricultural Adjustment Act,* 1934, page 193.

PROPOSED MARKETING QUOTAS
(in short tons)

	Quotas under the Stabilization Agreement	*Quotas as Recommended by the President to Congress*	*Differences*
Continental Beet Area	1,750,000	1,450,000	−300,000
Louisiana and Florida]	310,000	260,000	− 50,000
Territory of Hawaii	975,000	935,000	− 40,000
Puerto Rico	875,000	821,000	− 54,000
Philippine Islands]	1,100,000	1,037,000	− 63,000
Cuba	1,700,000	1,944,000	+244,000
Virgin Islands	15,000	5,000	− 10,000
Total	6,725,000	6,452,000	−263,000

The Stabilization Agreement failed largely because a decision could not be reached on the allocation of the national sugar requirement among the various areas. It is recalled from the preceding chapter that the original theory of allocation formulated by the industry in arriving at the Agreement was that adjustment of marketings from current levels was to be applied to all areas, domestic, insular, and Cuban, and that the greatest restriction was to be experienced by Cuba and the least by the domestic producers of the beet area. This initial and tentative plan, however, did not bear fruit inasmuch as the sugar beet industry demanded a quota of 1,750,000 tons, which was tantamount to the demand that it be unrestricted. Consequently when the presidential recommendation went before Congress, contemplating a beet sugar quota of 1,450,000 tons, the beet interests fought to obtain free and unrestricted marketing or, failing this, a quota amounting to the same thing.

The position of the western farmers was expressed first by the American Farm Bureau Federation before the Committee on Finance as follows:

> The [domestic] sugar producing farmers should be allowed to control their acreage by enlarging it annually 10% to 15% until such enlargement gradually reaches the surplus point of production. . . .[10]

[10] *Hearings before the Committee on Finance,* 1934, page 246.

Then Mr. Charles Kearney, President of the National Beet Growers Association, who had fought for the beet growers during the development of the Stabilization Agreement, reiterated his objection to limitation.

> This [restriction] would be a dangerous innovation and precedent. . . . We believe some plan for agreement is the only hope for decent sugar prices in the near future, and we want a plan that will do the job; but we cannot subscribe to any principle which would do violence to the farmers' inalienable right to the markets of the United States. We cannot take any other position.[11]

The objection of the beet industry to the quota recommended by the President became the backbone of a Congressional opposition sizeable enough to defeat the measure. Defeat or undue delay would have crippled the Administration's policy of assisting all sugar producers, domestic, insular, and Cuban.[12] Consequently, it was imperative that some compromise be reached with the all-powerful beet interests in order that the bill receive Congressional approval. The compromise with respect to the beet quota was manifold. The beet producers accepted the theory of limitation of marketings, and by doing so gained preferential position in two ways.

In the first place, the amount of sugar to be allocated to the beet area[13] was set specifically by Congress in the Act. It was not left to the administrative discretion of the Secretary acting under a broad formula provided by Congress as were the quotas for the offshore areas. This procedure of having the beet sugar quotas fixed by Congress, rather than determined by the Secretary, was probably stimulated by the Secretary's views on international trade and the national tariff. As the Senate Finance Committee

[11] *Ibid.*, page 41.

[12] Cuba, in early 1934, was in a state of revolution and widespread disorder.

[13] Also Louisiana and Florida.

was informed by Senator Vandenberg,[14] the Secretary had written previously[15] that necessary reductions in tariffs

> . . . might seriously hurt certain industries, and a few kinds of agricultural businesses, such as sugar beet growing and flax growing. Then, I think we ought to face this fact. If we are going to lower tariffs radically, there may have to be some definite plan whereby certain industries or businesses will have to be retired.

The Senator charged that "the inevitable implication is that you are thinking in terms of retiring the sugar beet industry." The Secretary, on the Committee stand, retorted that this was not his intention and added:

> With the human situation as it is in the Rocky Mountain states, speaking for myself personally now, and not for the administration . . . I would not retire it at any time in the next ten years.

Notwithstanding this assurance by the Secretary, the bill was enacted in a form which stated definitely the amount of sugar which could be marketed each year by the domestic beet factories.

Secondly, not only was the amount of the beet quota fixed in the Act, but it was raised by Congress by 100,000 tons over that which had been recommended by the President, being set at 1,550,000 tons instead of at 1,450,000 tons. This amount, although less than the 1933–1934 bumper crop of 1,757,000 tons, was greater than had ever been sold in one year by the beet industry and, in consequence, it represented not a reduction from current sales levels, but a check on further expansion. In this regard, it met the requirements of the President against an expansion of this "necessarily expensive industry."

[14] *Hearings before the Committee on Finance,* 1934, page 31.

[15] The Senator quoted from *America Must Choose,* Henry A. Wallace, Foreign Policy Association, New York, 1934.

In addition to these points of compromise, the general objections of the beet growers against limitation of future expansion were met by the Department of Agriculture in a press release of March 16, 1934, when the bill was receiving Congressional consideration. The fact was stressed that farmers would receive a direct subsidy (benefit payments to assure "fair exchange value") upon all their tonnage of sugar beets produced within the limits of the quota system.

> Protests that the program tends to eliminate or destroy the beet growing industry are entirely without foundation of fact. There is no intent to eliminate the industry. On the contrary, the plan is to guarantee the income of domestic producers. The program gives beet sugar producers an opportunity to obtain what no other American farmer has yet been offered—an assurance of fair exchange or parity value for their crop.

With these assurances and the support of the refining industry which had obtained a quota limitation against a further increase in the importation of "offshore" refined sugar,[16] the major important political objections to the bill dissolved and its passage was assured.

The other areas involved, the Territory of Hawaii, Puerto Rico, and the Philippine Islands, were in agreement on the basic principles of the Sugar Act. They had, by advocating the Stabilization Agreement, endorsed the theory of quota control for the industry. As was to be expected, however, they did not concur in the increase by Congress of the beet sugar quota by 100,000 tons. In addition, they raised objections to having their quotas set by the Secretary in accordance with a formula based upon their past marketing "during such three years, respectively, in the years 1925–1933, inclusive, as the Secretary of Agriculture may, from time to time, determine to be the most representative

[16] In Chapter XVI this quota on refined sugar is discussed at length

three years. . . ."[17] The representative of the Hawaiian sugar industry stated that "the quota should be fixed and definite," and added that "you have got to fix definite quotas in your measure in order that the various producing areas shall know what they can market in the United States in any year."[18] In voicing their objections to the use of such a broad formula they showed that if the "three most representative years" selected for the establishment of the Cuban quota were 1926, 1927, and 1929, an allotment would result of 3,680,000 tons rather than the 1,900,000 tons recommended by the President. These apprehensions, expressed by the Hawaiian industry, were shared by the representatives of the other insular areas.

Congress did not see fit to state quantitatively the quotas applicable to the various insular areas, but set up a broad formula for their establishment by the Secretary. In the subsequent administration of the quota system this placed a heavy burden upon his office. In retrospect, there appears to be no valid reason why Congress should not have taken that responsibility inasmuch as the statistical facts relating to the past importations of sugar from the various areas were available to it. In addition, the Secretary of Agriculture had specifically stated that the responsibility of establishing quotas belonged to Congress. In light of the temper of the Supreme Court, shown in the "Hot Oil" and "N.R.A." cases,[19] the delegation of legislative authority to an administrative official without a clear standard of action was questionable Congressional practice and constitutional law.[20]

[17] Section 8(a)(1) of the Act.

[18] *Hearings before the Committee on Finance*, 1934, page 211.

[19] *Panama Refining Co.* v. *Ryan*, 293 U.S. 388, 55 S. Ct. 241; *A. L. A. Schechter Poultry Corp.* v. *U.S.*, 295 U.S. 495, 55 S. Ct. 837.

[20] In June, 1936, Congress repealed the tax and payment features of the Sugar Act already invalidated by the Supreme Court. In extending the quota system through 1937 it set the quotas at amounts previously

The following table presents in summary the quotas recommended by the President and those adopted by Congress, specific and otherwise, with the resulting changes.

QUOTAS
(short tons)

	Recommended by President	*Adopted by Congress*	*Changes*
Beets	1,450,000	1,550,000	+100,000
Domestic Cane	260,000	260,000	No change
Hawaii	935,000	To be determined by the	−some portion of 100,000 tons
Puerto Rico	821,000	Secretary in accordance with	− " "
Philippines	1,037,000	a formula of past marketings	− " "
Cuba	1,944,000	in the 3 most representative	− " "
Virgin Islands	5,000	years between 1925 and 1933	− " "
Total Marketings (estimated consumption)	6,452,000	6,452,000	

Payments

Just as the division of the quotas among the various insular areas was not stipulated by Congress, so the amount of the benefit payments to farmers arising from the processing tax on sugar was left in abeyance—as were the payments in other basic commodities under the A.A.A.—and placed in the hands of the Secretary. The President's message had stated that

The Agricultural Adjustment Act should be amended to make sugar beets and sugar cane basic agricultural commodities. It

established by the Secretary. In doing this, the quotas and correlative allotments were fortified as to their legality inasmuch as they could not be attacked on the grounds that they had been established by an administrative officer under an excessive delegation of legislative power. Jones-O'Mahoney Sugar Resolution, signed by the President June 19, 1936.

will then be possible to collect a processing tax on sugar, the proceeds of which will be used to compensate farmers for holding their production to the quota level.

This recommendation was somewhat ambiguous, however, inasmuch as it did not indicate what were to be the amounts of such payments or whether the term "farmers" was to include the producers of Hawaii, Puerto Rico, and the Philippine Islands, as well as of the domestic United States.

Although the Secretary had stated that domestic farmers should receive "fair exchange value" for their crops, nothing was said at this time as to the basis of the payments to producers in the Territory of Hawaii, Puerto Rico, and the Philippine Islands. Further vagueness on payments to producers in the insular areas was found in the provisions of Section 8 of the Sugar Act. This section gave the Secretary the discretionary power to spend the processing taxes, arising from the sugar produced in the various *insular* areas, either (a) for the purpose of making benefit payments to cane planters for curtailing production, or (b) for the "general benefit of agriculture" under such plans as the Secretary might formulate for those areas, or (c) for both.[21]

In accordance with this provision, and in light of the commitment which had been made publicly by the Secre-

[21] The President, in his discretion, was authorized by proclamation to decree that all or part of the taxes collected upon the processing of sugar beets or sugar cane in the Territory of Hawaii, Puerto Rico, the Philippine Islands ". . . shall not be covered into the general funds of the Treasury of the United States, but shall be held as a separate fund, in the name of the respective areas to which related, to be used and expended for the benefit of agriculture and/or paid as rental or benefit payments in connection with the reduction in the acreage or reduction in the production for market, or both, of sugar beets and/or sugar cane, and/or used and expended for expansion of markets and for removal of surplus agricultural products in such areas, respectively, as the Secretary of Agriculture, with the approval of the President, shall direct."

tary of Agriculture, the payment aspects of the new sugar program were as follows:

(1) The producers of beets and cane in continental United States were assured a "fair exchange value" upon their production.

(2) The planters of the Territory of Hawaii, Puerto Rico, and the Philippine Islands were not assured "fair exchange value" for their production. In fact, these planters were not assured of any payments. The Secretary might allow the processing taxes upon their sugars to come into the general fund of the Treasury in the names of the various insular areas, and he could make expenditures from these funds either to planters under the terms of production adjustment contracts, or for the "general benefit of agriculture" under plans as formulated by him. In other words, Congress approved of a plan whereby the expenditure of processing taxes in the insular areas of, roughly, $27,000,000 per annum would be left to the Secretary under a broad and vaguely defined delegation of power. It was surprising that the hearings before Congress did not develop protests from planters in the offshore areas demanding more specific information as to the financial assistance which would be forthcoming to them under the new plan.

This general failure to set down specific instructions regarding payments may be criticized as an abrogation by Congress of its responsibility to decide the amount and method of the disbursement of public funds. It became the basis for attack upon the Secretary for the issuance of the surprisingly (to the uninformed) large cheques which were paid at a later date to incorporated plantations in the Territory of Hawaii and Puerto Rico. It is of interest to note that although this attack was most bitter in Congress, the Act had included no specific directions to the Secretary on this score and no evidence—in hearings of the Committees

or in the debate of the two Houses—can be found that the payment provisions of the sugar program were adequately analyzed.

In passing the Sugar Act, Congress did not formulate the policy of the United States with respect to this commodity. The President did not formulate the policy. It had grown slowly out of the experience of business, the findings of the Tariff Commission, and the convictions of the Department of Agriculture. A shift from protection through a tariff to protection through a quota-benefit payment system had occurred, and with it had come a decided shift in the part that Congress played in the sugar industry. By the passage of the Act, it endorsed a plan which had been developed formally by the executive branch of the government, but it permitted significant decisions, on quotas and payments, to be placed in the hands of an administrative official. The estimation of consumption by the Secretary of Agriculture, the establishment of quotas, and the division of those quotas among various processors in the areas involved, represented a tremendous enlargement of government powers over the operation of an industry; and Congress, by the very nature of the problem, was limited to the adoption of the policy and the creation of general standards of action. But in the case of the two most important questions, to wit, the division of the quotas and the payments of funds, those standards were vague and gave little guidance to the administrative officer.

When the bill was finally sent to the President for his signature, it represented one of the most far-reaching attempts of our Federal government to regulate an industry. The record of the public hearing upon this bill does not indicate that the industry objected to the new measure; in fact the industry itself in its Stabilization Agreement had

attempted to draft a new sugar system involving equally stringent terms. Such objection as arose was not directed at the increase in the Federal power, but developed primarily over the division of the quotas among the various areas involved. The fight was not over the exercise of Federal power but over the sharing of the financial benefits which were to follow.

CHAPTER VIII

THE PLAN IN ACTION—RATIONALIZATION OF MARKETING

A person with little understanding of the sugar problem but reasonably informed in American history would have been shocked by the tremendous expansion in government's power over industry called forth by the Sugar Act. Here, for the first time in our nation's history, was a good example of "purposive direction" of an industry by government action. Congress had pointed out the general direction in which the industry was to advance; administrative officers, with the cooperation of business and agricultural leaders, were to steer the course.

The powers of the Secretary of Agriculture, the administrator of the Act, were extensive; he was to estimate the "consumption requirement of sugar for continental United States," to divide this consumption requirement among the various producing areas, to divide each area quota (except that of Cuba) among the cane or beet processors involved, to adjust the production of sugar beets and sugar cane through voluntary contracts with farmers, and, lastly, to make benefit payments to continental and insular producers in amounts to be determined by him. These powers, on the economic side, afforded the means whereby the Secretary of Agriculture could determine the total flow of sugar into the United States market and affect its price. In establishing this control, he could directly affect, favorably or unfavorably, the farm incomes of agricultural producers,

the profits of processors, the volume of production of the seaboard refiners, and the retail price paid for sugar by over 120,000,000 consumers. He could fortify or undermine the property interests of thousands of persons. Contracts, current as well as future, for the purchase and sale of sugar cane and raw sugar were to be influenced by his administrative decisions.

In short, an informed student of American affairs, even in the early days of the New Deal, would have been astonished to see such extensive powers lodged in the hands of the government. A business man outside the sugar industry would have read the Act with great misgiving. All the doubts which would normally arise in his mind as to the capacity and ability of the government to direct industry would have become double-edged. He would have asked: Where is the central government to obtain men of capacity to direct this ambitious scheme? How, in a short time, can an administrative agency be organized to meet the innumerable difficulties inherent in such a plan? Is it to be expected that men will sacrifice their rights of property to help reach the objectives of the Act? And, finally, is this plan for the sugar industry merely another control scheme of the same stamp as those which have repeatedly failed, such as coffee in Brazil and rubber in the East Indies?

FACTORS FAVORABLE TO ADMINISTRATION

A superficial reading of the bare words of the Act would have brought such reactions. An acquaintance with the history of our sugar policy, however, would have revealed that this legislation was the inevitable culmination of a long train of circumstances and not merely the current whim of an overburdened Congress. To know the history of the sugar industry was to know the legislation and something of its chances of success. The well-informed were not

only aware of the background of the Act, but they recognized the existence of certain factors favorable to its successful administration. These factors, obviously, were not to be found in the dry bones of the Act, but the Act was imbedded in them.

In the first place, the industry to be regulated was composed of a small number of large units, the number of all processors and refiners to be regulated being less than 250. The interests of these processors were naturally confined within certain broad groups; for example, the seaboard refiners were organized into one agency and the producers of raw sugar were divided into area associations more or less compact, more in the Territory of Hawaii and less in Puerto Rico. It was thus possible for the administrator to approach the members of the "industry" in groups as well as individually.

Secondly, the sugar industry approved the plan. Practically all elements of the business were in agreement that the tariff method of assistance not only had failed, but had aggravated economic dislocation in the industry. In its own Stabilization Agreement in the summer of 1933, and before the Committees in the Houses of Congress in the spring of 1934, the industry had agreed that the quota principle underlying the Sugar Act was inevitable under the circumstances of acute world depression in sugar. Cold economic adversity had given the sugar industry in appearance, at least, some unity and cohesion. It was clear, however, that the industry did not give unanimous approval to the entire Act. General economic forces brought the various areas together; sectional forces tended to separate them. Striking a net balance, however, between agreement and disagreement, the industry sanctioned this experiment in economic readjustment by the government. Unlike those persons affected by Federal regulation of security issues,

public utility holding companies, or coal, the members of the widespread sugar industry eagerly awaited administrative action to set the Act in motion.

A third factor favorable to an effective administration of the Act, not evident from a cursory reading, was that the legislation had been developed and drafted by the administrative branch of the government. Administrative machinery, in part, had been set up before the Act was passed, a Sugar Section having been established in the A.A.A. (November, 1933) after the rejection of the Stabilization Agreement by the Secretary (September, 1933). An experienced personnel had been recruited which immediately set to work collating statistical and industrial information necessary for the development of formal legislation. Here the traditional processes of government were reversed. Instead of Congress passing legislation to be administered by the executive branch, the executive branch wrote legislation which was to be endorsed by Congress. In the case of sugar, this was an inevitable procedure inasmuch as most members of Congress at that time had a scanty knowledge of and a limited interest in the nature and complexities of the problem.[1] As a result, prior to the passage of the Act, various groups in the industry appeared before administrative officials of the government and the many-sided sugar problem was aired in the dreary halls and box-like rooms of the Agricultural Adjustment Administration. A legitimate lobby became active before the prospective administrators of the Act as well as the members of Congress. From this experience the administrative branch became intimately familiar with the views and prejudices of the industry's members; and the industry's members came to recognize

[1] One exception, of course, was the legislative manager of the Sugar Act, Senator E. P. Costigan of Colorado. Previously, as a member of the United States Tariff Commission, he had gathered a wide knowledge of the problem.

some of the limitations and difficulties of administration.

And lastly, the Act's prospects for a successful administration were enhanced by the fact that the quota system, limiting the *marketings* of sugar, could be strengthened by benefit payment contracts. These contracts called for payments to producers for adjustment of their production. Inasmuch as some sugar cane growers under the plantation system—in Florida, Louisiana, the Territory of Hawaii, and Puerto Rico—are also processors and shippers of raw sugar, their "farm" contract with the government held provisions pertaining not only to the production of sugar cane and raw sugar but also to its subsequent shipment to the United States. The power of Federal contract, as well as the power of Federal license, was used to cement the enforcement of the quota system.

The careful consideration given to the background of the sugar industry and the thoughtful planning which led up to the Act, through the findings of the United States Tariff Commission and the industry's Stabilization Agreement, were noticeably absent from the development of the National Industrial Recovery Act. The N.R.A. was passed in a wave of national enthusiasm. An administration to regulate all industry in the 48 states and the territories was set up hurriedly, only to break down before it was called upon to carry its heaviest load of responsibility, the enforcement of codes. Hastily organized, often at odds with other government agencies, and with no well-developed plan for reaching its wide and conflicting objectives, the N.R.A. was from the first doomed to defeat. It was fortunate that the Sugar Act was launched in more favorable circumstances. Congress had placed upon the Secretary's shoulders the heavy burden of rebalancing a far-flung industry and the task called for a wide exercise of administrative discretion. The administration could easily fall into

fatal errors of judgment; or the whole plan, through discriminatory and impetuous action, might collapse in the courts.

The essence of the Sugar Control Act and the two major problems of its administration were the limitation of sugar marketings under a quota system and the adjustment of production of sugar beets and cane in the producing areas. The remainder of this chapter will be concerned with the quota system, which was to be established in four steps: an estimate was to be made of the yearly consumption of sugar; the marketings required to meet this consumption were to be divided among the various producing areas; each area's marketing quota (with the exception of Cuba) was to be divided among the processors in those areas; and, finally, the allotments to processors were to be enforced by Federal orders and licenses.

ESTIMATE OF CONSUMPTION

The Sugar Act prescribed the first step in these words:

> The consumption requirements of sugar for continental United States . . . shall be determined by the Secretary of Agriculture from available statistics of the Department of Agriculture. The consumption requirements so determined shall, at such intervals as the Secretary finds necessary to effectuate the declared policy and purposes of this Act, be adjusted by him to meet the actual requirements of the consumer as determined by the Secretary.[2]

Simply stated, if the Secretary of Agriculture estimated the yearly consumption (demand) at an amount in excess of the actual consumption, stored-up surpluses of sugar would keep the price at the then "free" or "normal" level, the world price plus the duty. On the other hand, if the consumption were estimated under its potential level, a market shortage

[2] Section 8 (2) (A).

of sugar would be created and prices would rise. Under a quota system, the major factor affecting price is the supply made available to the market; and Congress did not place before the Secretary a specific standard as to how conservatively (high prices) or liberally (low prices) he should estimate consumption. In the Agricultural Adjustment Act itself, the declared policy (Section 2) was

> . . . to establish and maintain such balance between the production and consumption of agricultural commodities and such marketing conditions therefor, as will reestablish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period.

But the Act qualified this objective by directing the Secretary

> . . . to approach such equality of purchasing power by gradual correction of the present inequalities therein at as rapid a rate as is deemed feasible in view of the current consumptive demand in domestic and foreign markets.

When the Sugar Act was passed as an amendment to the A.A.A., a further declaration of policy was made regarding sugar. The Secretary was directed, in making his estimate of consumption, to have

> . . . due regard to the welfare of domestic producers and to the protection of domestic consumers and to a just relation between prices received by domestic producers and prices paid by domestic consumers. . . .[8]

These so-called legislative standards set by Congress were largely formal. The consumption for 1934 had been estimated by the sugar experts in the Department of Agri-

[8] Section 8a (1).

culture long before the Act was passed by Congress. In fact, the Stabilization Agreement, thrashed out by the industry nine months previously, had provided for the limitation of the American supplies of sugar to 6,350,000 short tons, and, with a rising consumption, the President's recommendation to Congress had called for a yearly supply to the American market of 6,452,000 tons. Inasmuch as the President's message was based upon data furnished by the Department of Agriculture, it might have been expected that the Secretary of Agriculture would set his official estimate close to this figure. In fact, this amount, 6,452,000 tons, was mentioned (in another regard) in the Act.[4] The final estimate of consumption made by the Secretary for the year (1934) was 6,476,000 tons, a figure higher by 22,000 tons (or less than ½ of 1%) than that which had been discussed generally. When the official estimate of consumption was made public, therefore, on June 9, 1934,[5] little surprise was expressed by the sugar industry, and no criticism was voiced on the specific figure.

Business men from time to time have criticized roundly any government plan for the rationalization of marketing to demand. Such plans call for estimates of future consumption and it is argued that business men, not government officials, are best fitted to make them. It is pointed out that the future of any business is extremely difficult to gauge, and that this step in the industrial process is within the province of business management rather than that of government. That it is the normal function of business to forecast future requirements is a truism. But the sugar industry was not "normal." The industry had approved the abrogation of free and unfettered competition, and the

[4] Section 8a provided that if the consumption estimate was larger than 6,452,000 tons, at least 30% of such excess should be allocated to the domestic beet and cane area.

[5] A.A.A., General Sugar Quota Regulation, Series 1.

responsibility of equating supply to consumption was voluntarily delegated to government. Although difficult, it did not prove too heavy a burden. Because of the nature of the commodity, the yearly consumption of sugar can be estimated without large error. Yearly consumption of sugar does not fluctuate widely, as does the consumption of steel, but remains within a relatively narrow band, and if, as was provided by the Sugar Act, there is an opportunity to revise that estimate during the year with changes in consumer requirements, the equating of market supplies to effective demand does not offer an insuperable administrative difficulty.

ESTABLISHMENT OF QUOTAS

Although the industry did not show great interest in the estimate of total consumption as it was announced by the Secretary, it did look forward with vital concern to the division of this amount among the various "offshore" cane producing areas. The marketing quota received by each area would directly affect the gross income of a long chain of persons: laborers, producers of cane, processors of raw sugar, and shipping and banking interests. At the time that the announcement of the quotas was impending (June, 1934), the 1933–1934 cane crops in the Territory of Hawaii, Puerto Rico, the Philippine Islands, and Cuba had been harvested and converted into raw sugar. In all cases these crops were in excess of the probable area quotas which might be established; for example, Puerto Rico, with a crop of 1,113,000 tons, did not expect a quota greatly in excess of 800,000 tons. This newly processed sugar from Puerto Rico, and that from the Philippines, was being rushed to the United States to gain entry before the quota limitations became operative with their establishment by the Secretary of Agriculture.

It may be recalled from the previous chapter that Congress, after fixing specific quotas for the continental cane and beet areas totalling 1,810,000 tons, passed to the Secretary the responsibility of dividing the remainder of the consumption estimate, approximately 4,642,000 tons, among the three insular areas, Cuba, and other foreign countries. The Secretary was directed by Congress to make this division

> . . . based on average quantities . . . brought into continental United States for consumption . . . during such three years, respectively, in the years 1925–1933, inclusive, as the Secretary of Agriculture may from time to time determine to be the most representative respective three years.[6]

Under this formula, there were 84 possible combinations of three-year periods for each of the producing areas. As was pointed out by the Hawaiian group in the hearings before the Committees in Congress, this wide discretion in selecting "the most representative three years" within a nine-year period could be exercised by the Secretary in such a manner as to give the Cubans, for example, over 2,615,000 tons as a maximum or about 1,902,000 tons as a minimum. Thus, as in the case of the estimate of consumption, the Secretary could find limited direction in the written words of Congress to assist him in the delicate matter of determining insular quotas.

In order better to understand the quota problem before the Secretary, it is necessary that the formal provisions of the Act be supplemented by a brief restatement of some of the events leading to its enactment. Congress had not seen fit to accept the quotas recommended by the President. It had raised the beet quota by 100,000 tons, and, in addition, changed the President's formula for the

[6] Section 8a(1).

allocating of quotas (a proration mainly in accordance with the marketings of the three years 1931, 1932, and 1933) to the marketings of *any* "representative" three years, as selected by the Secretary out of the nine-year period, 1925–1933. The question before the Secretary, then, was: How should the additional 100,000 tons which had been given by Congress to the beet area be subtracted from the originally suggested quotas for the several insular areas? Should each insular area take its pro rata share of the reduction of 100,000 tons or should the burdens be shifted in some other manner? Congress left this question to the Secretary of Agriculture, and, in doing so, placed him in a position where any decision was certain to meet criticism.

In dealing with a problem of the scope and importance of quotas, the Secretary had of necessity to rely heavily upon the reports of experts within his department. In addition, he would be expected to obtain the viewpoints of other agencies of the government which had an administrative interest in the decision, i.e., the State Department for Cuba, the War Department for the Philippines, the Department of the Interior for the Territory of Hawaii and Puerto Rico. As a consequence, an interdepartmental committee of representatives of the four departments was appointed by the President for the purpose of advising the Secretary. This meant that the dispute over the allotments for the insular areas, which previously had been carried on at public hearings on the Stabilization Agreement and afterwards before Congress, was now heard by a small committee of an informal character. The representatives of the various insular industries placed their cases before the particular member on the committee to whom they looked for support in the matter, and a vigorous administrative lobby ensued. The final report of this advisory committee was placed before the Secretary for his consideration. The

nature of that report is not publicly known, but the evidence presented in *Ewa Plantation* v. *Wallace*[7] indicates that there were sharp differences of opinion among the members.

It is not known whether the Secretary followed the recommendation of the majority of the committee who signed the report. The official regulations fixing the quotas[8] merely stated that, in accordance with the Act, the deliveries from the insular areas in the years 1931, 1932, and 1933 had been chosen as the basis of determining the quotas, excepting that of the Territory of Hawaii, for which the years 1930, 1931, and 1932 had been employed. The announcement by the Secretary of the insular quotas for the year 1934 brought to a close a long controversy in the industry. The table below gives the quotas as originally proposed by the President, and as finally established by Congress and the Secretary:

QUOTAS FOR 1934

	As Recommended by the President	*As Established under the Act*	
United States Beets	1,450,000	1,556,000	Directly by Congress
United States Cane	260,000	261,000	
Cuba	1,944,000	1,902,000	By the Secretary of Agriculture under the Act
Philippine Islands	1,037,000	1,015,000	
Puerto Rico	821,000	803,000	
Territory of Hawaii	935,000	917,000	
Virgin Islands	5,000	5,000	
All Others	0	17,000	
Total Estimate of Consumption	6,452,000	6,476,000	

ESTABLISHMENT OF ALLOTMENTS

After the marketing quotas had been established, the next problem was to evolve a method of enforcement which

[7] Supreme Court of District of Columbia in Equity #57587, *Ewa Plantation Company* v. *Henry A. Wallace, Secretary of Agriculture of the United States*. Brief for defendant, pages 87–95.

[8] A.A.A. General Sugar Quota Regulation, Series 1, June 9, 1934.

would be effective but at the same time not burdensome to the industry. Should restriction of marketings be implemented without reference to individual processors or importers, or should an allotment system be established under which each sugar processor within an area would receive his share of the quota for that area? For example, should the 1,556,000 tons of beet sugar, established as the 1934 quota for beets, be allotted (on a yearly basis) among the 26 beet companies involved, or should the Secretary permit these processors to market as much sugar as they chose until the total beet quota had been reached? It was soon realized that the latter method would bring hardship to some processors and favorable treatment to others; obviously, a processor within a quota area who sold his sugar at an early date would have a clear advantage over late sellers in his area. If individual allotments were not made, it would be possible for some processors to gain more than their proportionate share of the quota by rushing their sugar to market.[9]

Congress, in providing for individual allotments, established no standard or rule for the Secretary to follow—not even in broad outlines such as the "three most representative years" in nine—which had been laid down as the basis for quotas.[10] In addition, no public hearing upon the establishment of the allotments was required by the Act nor were the allotments determined by the Secretary made reviewable in court. In short, the requirements ordinarily

[9] The necessity of individual allotments had been anticipated by the industry at the time the Stabilization Agreement was drafted, it being provided that the processors should divide the area quota among themselves in an equitable manner. In case of disagreement, the Secretary was to make a final and binding decision without the aid of any standard or rule of action. (Section 9.)

[10] The Secretary "may, by orders or regulations, allot such quotas and readjust any such allotments, from time to time, among the processors, handlers of sugar and others. . . ." Jones-Costigan Sugar Act, Section 8a. Not only was there no establishment of a fixed rule, but the Secretary might or might not establish such allotments.

prescribed by Congress for the procedure of administrative agencies in implementing Federal legislation, e.g., the Federal Trade Commission Act, were not found in the Sugar Act. But this did not frighten the industry, and no demands were heard for the inclusion in the Act of a fixed procedure (a set standard, public hearing, administrative finding of fact, or court review) for the determination of allotments. In fact, the testimony at the Congressional Committees' hearings discloses very little or no interest in this problem. A partial explanation probably lies in the fact that the industry had consented in its proposed Stabilization Agreement to leave the making of allotments in the hands of the Secretary. Furthermore, any legislative standard for allotments would probably have been so general in its terms as to have been of little service to him.

Consideration will be given in the following chapters to some of the detailed questions that arose in the working out of allotments, but at this time it is sufficient to note that the Secretary was thoroughly conscious of the delicate and difficult legal and economic problems involved. The allotments were a direct limitation on the rights of business men to sell their product and could be interpreted as an "interference" with the business of processors in the various areas involved. From an administrative standpoint, it was urgent that no action be taken which was not clearly essential, and if taken, only after careful consideration.

In administering the Act, the Secretary attempted to do what the industry had recommended in its Stabilization Agreement; that is, he requested that the processors in each area, cane or beet, agree among themselves to an equitable distribution of the area quotas. A maximum of self-regulation was sought by the Administration. It was only in the Territory of Hawaii, however, that agreement could be reached, and consequently it was unnecessary for the Secre-

tary himself to determine the allotments there. In the Philippine Islands they were set by the Governor-General, who, in accordance with the provisions of the Act, was appointed by the Secretary as his agent for that purpose. In the domestic beet area and in Puerto Rico, after numerous conferences and meetings, the processors were unable to reach a complete agreement and willingly left the responsibility with the Secretary, confident that he would arrive at allotments which were fair and equitable.[11]

ENFORCEMENT

It is one thing for the government to establish the yearly marketings for an industry under a quota and allotment system and another to enforce them. Both reason and experience would make one extremely skeptical of an easy enforcement of any complicated scheme for the "rationalization" of industry. In the case of sugar, however, one factor overshadowed all administrative difficulties—the nature of the organization of the industry. As has been pointed out, central governments all over the world have had a relatively easy task in controlling certain aspects of the sugar industry, both because its organization is compact and because the commodity is largely imported and must enter the limited harbors available for ocean freight. Practically all sugar brought into the United States enters at San Francisco (from Hawaii and the Philippine Islands) or at Boston, New York, Philadelphia, Baltimore, Savannah, and New Orleans (largely from the West Indies). In consequence, immediately after the quotas and allotments had been established, the Collectors of Customs in all ports were directed by the Secretary of the Treasury to exclude any over-quota or non-allotment sugar from entry into the

[11] The marketing allotments to the beet processors were made after due notice and public hearing although these safeguards were not provided by law.

United States. The burden of proof was upon the importer to show that the sugar was "allotment" sugar. Violations of the quota and allotment systems were thus virtually impossible. These circumstances simplified the administration of the allotment system and afforded a sharp contrast with the enforcement difficulties arising under codes of fair competition in the N.R.A., which purported to direct and control the activities of thousands of businesses, large and small, without regard to the varying complexities of those businesses.

The quotas were to constitute the maximum of sugar which could be marketed for consumption in 1934. At the time they were announced (June, 1934) the 1933–1934 crops in all areas had been harvested. The following table gives the amounts by which these crops were estimated to be in excess of the allowable quotas: [12]

EXCESS OF 1933–1934 PRODUCTION OVER 1934 QUOTAS*

	Excess in Tons	*Excess as Percentage of Crop*
Continental United States	191,000	9.5
Hawaii	73,000	8.3
Puerto Rico	251,000	23.8
Philippine Islands	451,000	30.8
	976,000	

* Local consumption in the insular areas has been subtracted from production.
Source: A.A.A., Sugar Section.

Excessive supplies for the American market were prevented from entering the channels of consumption and were stored for distribution in the next quota year, 1935. Thus, within two months after the passage of the Act, the industry saw a balancing of current supplies to the probable

[12] Persons wishing to store sugar in the United States in excess of such quotas or allotments were required, at their own expense, to place the sugar in a bonded warehouse for delivery in the following year under the 1935 quotas.

yearly demand and the first objective of the Sugar Act was reached. The skeptical became convinced that a quota system in sugar was administratively feasible. But whether it was to raise the price remained to be tested. As long as surplus stocks of sugar and sugar cane existed, it was argued, no sustained rise in price would take place. Consequently, the attention of the industry and government was directed to the possibility of readjusting production, primarily in the rapidly growing areas of the Philippines and Puerto Rico. Was it possible, under the Sugar Plan, to rectify by government action the errors of the past which had allowed production in our insular areas to become swollen under the artificial stimulus of our tariff system?

CHAPTER IX

THE PLAN IN ACTION—THE ADJUSTMENT OF PRODUCTION

Business history reveals that artificial control of the supply of a commodity by producers—acting either voluntarily or under government compulsion—will tend to raise its price, but history also reveals that most valorization schemes have had but temporary success. The cycle has been decreased marketings and a rise in price, enlarged production and a relapse in price. The examples are numerous. In rubber, marketing control by the British government failed to include all the sources of production in the East Indies; production increased and prices fell. Early trusts and combinations in America had a degree of success in price-raising schemes until some industrialists "jumped the gun" with an increase in production and sales at lowered levels. In 1928 and afterward, American copper production learned the same lesson. In short, skepticism of business men regarding artificial price-raising schemes arises from ample historical experience.

THE ORIGIN OF CROP CONTROL

Members of the sugar industry, during the formulation of their Stabilization Agreement, were fearful of a collapse in any plan for the limiting of sugar marketings not accompanied by a limiting of production; but the Agreement they drafted did not provide clear and effective means for such a program. The industry saw the necessity for pro-

duction adjustment but its plan was weak in at least two respects: producers would have little incentive to adhere strictly to production control, and the Agreement contained no provisions for penalizing producers who might exceed their production allotments, except in the case of the Philippine Islands. These weaknesses certainly influenced the decision of the Secretary to reject the Agreement.

The Secretary was also aware that under the terms of the rejected Stabilization Agreement the degree of production adjustment (both the amount and its division among growers) would be determined by the various beet factories and cane processors, the signers of the Agreement. Such a method would leave room for endless disputes between buyers and sellers of the farm product.[1] For example, if a cane processor (owning a plantation-mill unit) in Puerto Rico restricted his cane grindings 20% to conform to an equal reduction in his marketing of sugar, he could decide how much of the restriction should be shouldered by himself, as a cane grower, and how much should be placed upon the independent colonos from whom he purchased his additional supply of cane. In addition, he could give some colonos a preferred position over others by arbitrarily varying the incidence of restriction. In light of the inadequacy of these provisions regarding limitation of production in the Stabilization Agreement, it is not surprising that the Administration and the agricultural producers preferred the establishment of a direct contractual relationship between the Federal government and such producers.

Consequently, the Sugar Act embodied the plan suggested by the President, i.e., that beets and cane be designated as basic commodities which would make them amenable to a processing tax and would empower the

[1] Any dispute, however, would have gone to the Secretary as the last court of appeal.

Secretary to enter *directly* into adjustment contracts with producers under which payments could be made. With this plan before them, the "dirt" farmers of the sugar beet area, who had the largest representation in Congress, supported the new sugar program. They knew that under the adjustment program they would receive "fair exchange value" for their sugar beets, and in obtaining such assistance they would deal directly with the Secretary of Agriculture, the representative of the government, rather than with their "friendly enemies," the processing corporations.

Before the Sugar Act was signed, then, all elements in the sugar industry were aware that adjustment in production was to take place and that such adjustment was to be carried out under direct government contract. Crop control in sugar was not the result of a bureaucrat's decision but arose from an industrial need which was recognized by the industry.

Adjustment in production had as its dual objective the reduction of the sugar crop to current quota levels and the absorption of existing surplus stocks of "over-quota" raw sugar.[2] Accumulated largely in the Philippine Islands and Puerto Rico, approximately 451,000 tons and 250,000 tons, respectively, these existing surpluses of sugar hung over the market to depress the price. There was little doubt that they would continue to keep prices depressed until they were reduced in size.[3] From the beginning, it was apparent to the government and to the industry that rigorous readjustment in the crops for the year 1934–1935 was necessary, especially in the insular areas where the surpluses of sugar were heaviest. After these stocks had

[2] Obviously, the United States had no jurisdiction over the adjustment of production in Cuba. At that time a rigid system of production and marketing control was in operation under the Cuban government.

[3] In this regard, these supplies of sugar were similar in character to the enormous excessive stocks of cotton which hung over the market in 1933 to depress its price in America and throughout the world.

been reduced, the adjustment contracts would call for a yearly production in harmony with the marketing quotas established for each area. Thus a halt would be called to the tariff-stimulated growth which had taken place since the War, and there would be an end to the maladjustment of production which had caused the disastrous drop in price and which had driven Cuban sugar from our market. Government with industry was to attempt to unscramble by Federal contract and expenditures the maladjustments in the American sugar system caused by world depression and the artificial stimulation of a blind tariff policy. The Treasury was to foot the bill incident to a realignment of public protection for sugar.

FACTORS FAVORABLE TO ADJUSTMENT

Within a year after the signing of the Sugar Act, approximately 100,000 producers of beets and cane in Puerto Rico, Florida, Louisiana, our beet producing states, the Territory of Hawaii, and the Philippine Islands were under Federal contract for crop adjustment. The administration of this ambitious and widespread program for production adjustment, calling for a reduction of over 1,500,000 tons of sugar in one year, was facilitated by the presence of certain factors inherent in the sugar industry and the Sugar Act.

In the first place, the control of marketing through quotas (1934) preceded the control of production (1935). Assuming that the quota (marketing) system was to continue for three years, the life of the Act, and that the quotas for the producing areas were to be maintained as originally announced, the problem facing the Administration was a fairly simple one. Yearly production of cane and beets in any area should be in amounts necessary to make up its marketing quotas.

Although the Act gave the Secretary the broad power

to enter into contracts with producers for the production of sugar beets and cane in quantities to be determined by him, nevertheless, by indirection, because of the quota system, Congress had outlined the development of the various production adjustment programs to be in harmony with that system.[4] Consequently, when the Secretary announced that the underlying theory of adjustment in all areas was to call forth an agricultural production of cane and beets commensurate with the quota system, there was little criticism from the cane millers or beet factories on the one hand, or the farmers on the other. The evidence at the hearings on the Stabilization Agreement and the debate before the Committees of Congress indicated that such a plan would be the normal outcome of the economic facts. Once more we see that the possibility of rash action by an administrative officer, under the wide powers of the Act, was made extremely remote by the historical and current circumstances surrounding the problem. The industry knew this; an uninformed critic of the Act would not.

Secondly, both the cane economy in the tropics and the beet economy in the West are characterized by intimate legal, agricultural, and financial relations between growers and processors. There is a mutual reliance between the two, the farmer depending upon the plant to take his output and the plant depending upon the farmer to furnish his raw material.[5] Sugar cane and beets are produced by

[4] This was not the case with other "basic" commodities, like wheat, in which the Secretary had wide latitude in adjusting production to levels which he believed were necessary to raise its price to "fair exchange value."

[5] This is in striking contrast with the practice in wheat production, where the farmer has no contractual obligation to produce wheat for any particular buyer. He may ship his own wheat direct to terminal points, skipping over the local country buyer. The situation in sugar is similar to that in the canning of specialty crops, such as California peaches or asparagus, where the buyer (the processor) contracts for the purchase of the product before it is harvested.

farmers under written contracts with the processors, and such contracts are generally in force with relatively constant terms over a period of years. On the whole, the sales outlet is narrow, and probably 90% of the producers sell their product to the same processor year after year.

Because of these facts, although the Federal adjustment contracts for the various areas were not identical, the administrative procedure in every case followed similar lines. Using the marketing quota of each area as a base, a production quota was established. The next step was to divide that production quota among the various agricultural districts served by a processor, i.e., a sugar beet factory or plantation mill. This factory district allotment was in turn to be divided among the various farmers within that district. Such individual production allotments were not to be exceeded. And at the close of each crop-year, compliance with the terms of the adjustment contract could be verified from the records of the beet or cane processor as well as from those kept by the farmer.

The development of benefit contracts with the thousands of producers in the Territory of Hawaii, Puerto Rico, the Philippine Islands, and the scattered western beet areas would have been extremely difficult but for this intimate producer-processor relationship. It enabled the Secretary to rely heavily on the processors as well as the farmers. The result was that the greater part of the administrative work of the program came to be shouldered by the local industrial and agricultural agencies, a system far more satisfactory than remote administrative control from Washington.

Thirdly, in all areas except the Philippine Islands and the western beet states, the processors are also cane growers on a very large scale; in fact the individual farmers, or colonos, merely supplement the processors' own supply of

raw material. The Secretary was empowered to enter into contracts with these processors in their capacity as agricultural producers. Naturally, "processor-producers" receiving direct financial benefits from such contracts, as well as the indirect benefit of higher prices arising from the quota system, were willing to cooperate in the administration of the general plan. They greatly assisted the Secretary in setting up and enforcing equitable allotments made to the farmers from whom they purchased sugar cane and beets. For instance, if a Puerto Rican colono received a production allotment of five tons of sugar, it was the responsibility of the processor to restrict the grinding of that colono's cane to the equivalent of five tons of sugar and report the tonnage of the cane so ground, through a detailed system of records, to the Secretary's representative in the island's capital, San Juan.

Lastly, in the Territory of Hawaii, Puerto Rico, and the Philippines, where the heaviest reduction in production was scheduled, there were certain technical features in the production of cane and manufacture of sugar which simplified the program. Unlike wheat, in which acreage restriction is the only practical means of curtailing production, sugar offers many possibilities. All or any of the following methods may be used to reduce the sugar crop: planting of less new cane; ratooning (or recultivation) of the old "stubble" cane; application of less cultivation; reduction of fertilization and irrigation; "carrying over" of the uncut cane crop from one grinding season to the next; use of the growing cane for cattle feed rather than sugar; reduction in the extraction of sugar from the cane juice; and manufacture of molasses from the cane juice, rather than sugar. It was not possible to employ all these methods of curtailment in all areas, but every attempt was made to use them in lightening the burden of agricultural adjustment. Care

was taken to develop the adjustment contracts in cooperation with both producers and processors in order that crop reduction might take the least disturbing form. And, excepting the Philippine Islands, the necessary curtailment was effected without physical destruction of a valuable agricultural commodity.

The technique of production adjustment in the case of sugar cane again brings to the front the general question, once of lively interest but now quieted by the Supreme Court decision, of the effectiveness of the central government in balancing agricultural production to given requirements. Wide currency has been given to the view that production control is impossible, or at least ineffective, because of such unpredictable factors as drought. This view is, in general, valid; but assumptions should be made only after a close examination of the facts relating to each crop. It is clear from the experience under the Sugar Act, as well as from the experience in Cuba and in Java, that the exact adjustment of sugar production is not difficult, primarily because the quantity of sugar cane grown and the quantity of sugar recovered from that cane are largely within human control. This does not mean that early frosts in Louisiana and Florida and the recurring hurricanes in Puerto Rico will not from time to time threaten any scheme for exact production control. But the principal areas where sugar cane and sugar beets are produced for the American market are so widely scattered, from Puerto Rico to the western United States, and from the Territory of Hawaii to the Philippine Islands, that acts of God, such as drought or hurricane, do not have a disastrous effect on the total quantity of sugar available. In sugar, production adjustment is not unsafe if adequate reserves are accumulated, and under the Sugar Act reserves were established in the various areas of approximately 10% of

their quotas. Because ample storage capacity exists for such reserves and because sugar does not rapidly deteriorate when stored in modern warehouses, there is no reason for apprehension regarding the supply. The experience of the drought years 1934, 1935, and 1936, so vividly in the minds of American continental producers of agricultural products and the consuming public, is not particularly pertinent in arriving at a sound public policy for sugar.

THE PROGRAMS FOR PRODUCTION ADJUSTMENT

Within a year after the passage of the Act, production adjustment contracts had been drafted for all areas: the continental beet states, Louisiana, Florida, the Territory of Hawaii, Puerto Rico, and the Philippine Islands. These contracts were based upon the theory that the production of sugar beets and sugar cane should be adjusted to coincide with the marketing quota for each area. In the case of Puerto Rico and the Philippines, the crops were restricted to a level *below* the marketings permitted under the quotas in order to absorb the excessive stocks which had been created under the old tariff system. The character of the benefit contracts for each area will be discussed in later chapters of the book; but, in anticipation, the table on the next page, which gives the essential features, is presented.

As might be expected, a somewhat different type of contract was developed for each area. These differences will be considered later in more detail; here it will suffice to point out the main methods of obtaining reduction in 1935 and 1936.

In the beet area and Louisiana the amount of acreage planted was to be controlled. But in the beet area, because of the rise in prices of other agricultural commodities, making them more attractive to farmers, and a shortage of

SUGAR PRODUCTION ADJUSTMENT PROGRAMS

	Number of Contracts Executed	Method of Adjustment of Production: 1935 Crop	Method of Adjustment of Production: 1936 Crop	Basis of Payments: 1934	Basis of Payments: 1935	Basis of Payments: 1936
Continental Beets	74,500	Acreage Control	No Control *	Fair Exchange Value	Fair Exchange Value	No Payments *
Louisiana Cane	9,000	Acreage Control; Control of Cane Marketed	No Control *	Fair Exchange Value	Fair Exchange Value	No Payments *
Florida Cane	5	Control of Sugar Manufactured	Control of Sugar Manufactured †	No Payments	Fair Exchange Value	Fair Exchange Value†
Hawaiian Cane	39‡	Control of Sugar Manufactured	Control of Sugar Manufactured †	90% of Processing Taxes on Hawaiian Sugar		No Payments *
Puerto Rican Cane	7,800	Control of Sugar Manufactured	Control of Sugar Manufactured †	No Payments	$4 a Ton on Surplus Cane	35¢ a Ton on Cane Produced†
Philippine Cane	18,200	Control of Sugar Manufactured	Control of Sugar Manufactured	No Payments	$2.13 a Ton on Surplus Cane	No Payments

* The A.A.A. decision of the Supreme Court (January, 1936) invalidated the contracts.

† The A.A.A. decision came during the harvest in these areas; 1936 payments were made from funds established by Congress under the Supplemental Appropriation Act, Public No. 440, February 11, 1936.

‡ In Hawaii about 4,000 adherent (pali) planters received payments from the processing taxes although they did not enter into contracts with the Secretary.

Source: From material presented in *Agricultural Adjustment, 1933 to 1935, A Report of the Administration of the Agricultural Adjustment Act*, U. S. Department of Agriculture, Washington, D. C., 1936, Chapter 14, "Sugar."

irrigation water, producers did not plant the full acreage allotted to them. Thus there was no real restriction, either voluntary or compulsory. Substantial reduction did take place in the beet output, however, because of the extensive drought in 1934 and 1935. In Louisiana there was a slight check on the expanding cane acreage, but because of unusually favorable weather conditions the crop reached bumper proportions.[6]

In Hawaii, Puerto Rico, and the Philippine Islands sugar manufacture was to be regulated by various methods. Curtailment of sugar production in the Territory of Hawaii for 1935 and 1936 was substantially less drastic than in the latter areas as enormous surpluses of sugar had not accumulated. Production adjustment was accomplished by an exact control of the tons of sugar manufactured from the cane. This factory control of sugar was reënforced by an agricultural retrenchment of the production of sugar cane through less intensive cultivation (including a decrease in fertilization and irrigation), by "carrying over" cane in the field from one year to the next, and by fallowing over 20,000 acres formerly under cultivation.

In Puerto Rico a reduction of about 376,000 tons of sugar had to be made during the crop year 1935 (January-May). This was effected through an exact control of tons of sugar manufactured. The surplus cane of that year was converted into high test molasses, not sugar, by the fairly simple process of extracting less sugar from the boiled syrup, giving the by-product of the industry, black strap molasses, a higher sugar content. In addition, there was an extensive "carrying over" of some of the surplus cane for conversion into sugar in the year 1936. An acreage con-

[6] In Florida the contract provided for the limitation of tons of sugar manufactured in addition to acreage control, and consequently the sugar output was adjusted exactly to the terms of the contract.

trol for the 1936 crop was also provided by the adjustment contract.

In the Philippine Islands the enormous crop of sugar in 1934 had produced a marketing surplus of about 451,000 tons. The crop in the field for 1935 was reported as 1,580,000 tons, an excess of the 1935 marketing quota of about 580,000 tons. The adjustment program called for the wiping out of the entire surplus of 1934 sugar and the 1935 crop of cane in one year. As a consequence, the 1935 crop was reduced by over 50%. For 1936 an adjustment of acreage would be sufficient to bring the crop to quota levels.

These programs for the adjustment of production were financed from a processing tax of one-half cent per pound levied upon raw cane and beet sugar. The payments to the various areas—made pursuant to the adjustment contracts between the Secretary of Agriculture and the producers—from the date the Act was passed through October, 1936 (which includes practically all payments accrued), are given in the accompanying table.

BENEFIT PAYMENTS TO PRODUCERS UNDER THE SUGAR ACT
(May, 1933, to October, 1936)

	Payments	*Percentage of Total*
Louisiana *	$ 9,463,418	11.73
Florida *	1,231,727	1.53
Beet Area	29,158,469	36.16
Territory of Hawaii	13,323,861	16.52
Puerto Rico	12,099,904	15.01
Philippine Islands	15,359,533	19.05
	$80,636,912	100.00

* Includes negligible amounts paid to producers of cane used for the manufacture of syrup

Source: A.A.A. press release, as reported by the *New York Journal of Commerce*, November 30, 1936.

The net result of the administration of the production adjustment contracts in the widely scattered sugar areas was to bring a drastic reduction in the amount of sugar

available for shipment to the American market. The sweeping character of that adjustment is shown in the table below which gives the crop for each area in 1933–1934 (the year before the passage of the Act), and in 1934–1935 and 1935–1936 (two years of crop adjustment): [7]

UNITED STATES AREAS—SUGAR PRODUCTION
(tons, raw value)

	1933–1934	*1934–1935*	*1935–1936*
Beet Area	1,765,000	1,241,000	1,258,000
Louisiana	205,000	234,000	336,000
Florida	46,000	27,000	45,000
Hawaii	1,029,000	980,000	1,000,000
Puerto Rico	1,113,000	772,000	926,000
Philippine Islands	1,578,000	697,000	985,000
Total	5,736,000	3,951,000	4,550,000

Source: A.A.A., Sugar Section.

In the year 1934–1935 the total crop under the American flag decreased by about 1,785,000 tons, or 30%. This was not entirely the result of restriction, however, but was partly (about 500,000 tons) due to the drought in the beet area which acted to reduce acreage planted as well as the tonnage per acre. In the following year, 1935–1936, the total American crop was increased by approximately 599,000 tons, or nearly 16%. Most of this increase came from the Philippine Islands and Puerto Rico which had reached a more normal production year after the emergency restriction of 1934–1935.

The ultimate economic effect of crop restriction in the first year of the Act was to raise the price of sugar in the United States. This price enhancement did not occur, however, until after the limitation of the marketings of sugar for 1934 had been fortified by production control. In fact, the price of sugar in February, 1935, after the

[7] In presenting this table, it should be noted that data on the production of sugar are approximate, and it is to be expected that various reporting agencies will present different annual figures.

close of the first quota year, was 2.80 cents per pound, only slightly higher than the extreme low of 1932. When it became apparent to the trade in the summer of 1935 that effective readjustment of production had taken place in the Philippine Islands and Puerto Rico, and that the then existing drought would reduce the beet crop, the price of sugar rose until it reached the high level for the year of over 3.80 cents per pound. In other words, when the industry was assured that a limitation on yearly marketings was to be reënforced by a limitation of production, it agreed that the sugar plan would be successful in reaching its second objective, adjustment of production. This appraisal was, of course, reflected in the market.

Reduced output under the Sugar Act had a marked influence on the world as well as the national supply of sugar. In the first place, it represented a reversal of the steady upward trend in production under the American flag which had been in evidence since the War. Secondly, in limiting the deliveries of insular areas, it afforded an enlarged outlet for Cuban sugar in the United States which tended to reduce the amount of Cuban sugar flowing to the world market. In other words, the great American producing area, which had produced and consumed approximately 25% of the world's sugar each year, was now under a production adjustment plan.[8]

THE PASSING OF THE NATIONAL SUGAR EMERGENCY

By the end of 1936 the Sugar Act had been in force for two years and a half. The interjection of "artificial" control into a widespread industry, with the sympathetic cooperation of that industry, had supplanted a "free competition" in sugar which collapsed in depression and pro-

[8] Between 1933–1934 and 1935–1936 total American production was reduced by about 20% whereas production elsewhere was increased by about 9%.

duction maladjustment. The two major features of the plan, a limiting of immediate marketings to consumption estimates and the adjustment of production to these levels, had been successfully carried out and the objectives of the Sugar Act had been reached. First, the duty-paid price of sugar had been raised by 27%, benefiting domestic and American insular producers; secondly, Cuba's price had been raised in the United States by over 105%; thirdly, the excessive stocks and crops in Puerto Rico and the Philippines had been curtailed, permitting a larger export from Cuba to the American market; fourthly, stimulation of domestic production had been halted; and, lastly, the domestic producers had received direct bounties from the Federal government. All this had been accomplished without an unbearable burden being placed upon the consumer; the retail price of sugar was at approximately the same level as that before the War. Between 1934 and 1936, however, the depression in sugar had continued throughout the world. By crop reduction, benefit payments, the quota system, and a reduction in tariff, the United States had successfully divorced her producers and Cuba from the world sugar market. (See Appendix for area incomes before and after the passage of the Sugar Act.)

In January, 1936, when the national sugar crisis was over, the Supreme Court crushed the theory that the Federal government was empowered to regulate production of agricultural crops. The decision[9] amputated the left arm of the Sugar Act, production control with benefit payments, but left the right arm whole to carry out the limitation of marketings through quotas. Yet the operation was disquieting to the industry and, more and more, attention was drawn toward the future of the sugar policy of the United States. Although the Court decision had come after

[9] *U. S.* v. *Butler*, 56 S. Ct. 312, 297 U. S. 1.

production control had rebalanced supply, the outlawing of production adjustment meant that direct payments to farmers came under the ban. Would farmers withdraw their support of the plan if they were not assured of receiving "fair exchange value"? Would they accept the restriction of output, that is, the inevitable corollary of any restriction of marketings, without the receipt of the Federal bounty? Would the price of sugar, through a restriction of marketings by the Secretary of Agriculture, be raised to a point sufficiently high to guarantee a "fair price" to producers without direct payments? Would Congress, in light of all the New Deal decisions of the Supreme Court, be willing to continue the "economic planning" of the Sugar Act? Would the industry, its profits restored, revolt against a continuation of government control? Congress debated over the complicated and crippled sugar program in the spring of 1936 but ended merely in extending the life of the sugar quota system to January, 1938. The sugar question will again confront it in 1937 when it is called upon to draft a permanent policy.[10]

Before an attempt is made to analyze the sugar problem as it will arise in the future, it is essential that it be looked at from the point of view of each interest affected, producers and processors (continental, insular, and Cuban), the seaboard refiners, and, finally, the consumer. What economic and political facts surround these groups, and how will these facts affect their future position in our national sugar policy?

[10] In the Second Session of the 74th Congress, and after the A.A.A. decision, five different measures were submitted as amendments or substitutes to the Sugar Act. A processing tax on sugar was proposed and defeated.

CHAPTER X

THE BEET SUGAR INDUSTRY

During the last 40 years the prime purpose of protecting our national sugar industry has been to guard the interests of the sugar beet farmers in the western United States. Whether the assistance has taken the form of tariffs or quota-benefit payments, the principal objective has always been the same, i.e., to support the beet industry which contributes about 25% of our national sugar requirements. This promotion and maintenance of the beet industry has had a parallel in practically all industrial countries, and here, as abroad, the contemporary economic and political position of beet sugar is the key to an understanding of the larger sugar issue. For these reasons, the beet industry and its relation to the government must be analyzed in some detail.

This industry is divided into two interdependent economic groups, the agricultural producers and the processors. The growers number approximately 77,000, utilize from 750,000 to 1,000,000 acres, and produce a crop with a farm value of around $50,000,000 a year. Of course, in comparison with the production of major agricultural crops, wheat, for example, the production of sugar beets is of limited national importance.[1] Compared with the beet industry of Germany or Czechoslovakia, which produces all

[1] Typical crop values in 1933 were: wheat, $280,000,000; cotton, $633,000,000; tobacco, $179,000,000; sugar beets, $59,000,000; rice, $26,000,000. *Yearbook of Agriculture*, U. S. Department of Agriculture, 1935, page 671

local requirements plus an exportable surplus, the beet agronomy of the United States in relation to our agriculture as a whole is small. But at the same time sugar beets stand as a very important "minor" agricultural crop.

This is not the entire story. There is the industrial side. Beet farmers must be served by an established industry for converting sugar beets into sugar. Consequently, in protecting the farmers, the tariff has given protection to an industry. This industry, comprising 27 companies which operate about 90 separate factories, has all the characteristics of modern, large-scale business; its organization is corporate in form, its ownership is largely in the hands of the investing public, and its management is composed of a trained personnel highly skilled in industrial chemistry. The total value of its product in 1933 exceeded $125,000,000, the largest item of expense being the value of the sugar beets converted, about $56,000,000. The labor cost is small relative to that of other industries comparable in size, and a "labor problem" is unknown. Compared with our key industries, sugar beet processing plays a secondary role in the nation's business, but in terms of the numerous small industries it is of first rank.

POLITICAL AND ECONOMIC STRENGTH

The beet sugar industry has in the past, and will in the future, exert a great political influence in the maintenance of a system of protection for sugar. The sources of its political strength are manifold, but the most important are as follows.

First, the industry has been built upon the foundation of years of government assistance. After being launched under tariff protection, its early growth was stimulated by the direct bounty of 1890, and it is reported that between October, 1890, and the following June

. . . some $6,000,000 had been invested in beet sugar factories in this country. . . . This small bounty, even for a brief time, was a wonderful stimulus to the struggling industry.[2]

With the passing of each year after the turn of the century, it became increasingly difficult for the government to contemplate the withdrawal of tariff assistance. Beet farmers, it is true, could have found alternative uses for their soil; but investment in the highly-specialized beet factories would have been seriously damaged, if not destroyed, by a complete withdrawal of protection.[3] After 30 years of such protection this infant industry was not self-sustaining, and it continued to be supported. In the pre-war free trade campaign of 1913, Woodrow Wilson's party decided to wean the infant gradually, and to place it on its own by 1916. But the war demands for sugar—less than two years after free trade was to have come into effect—brought frantic pleas from Washington for beet sugar producers to increase their output. After that episode, no serious consideration was given to the suggestion that tariff support could or should be withdrawn from the sugar industry in the United States, and any discussions of free trade for sugar took on a highly abstract flavor.

The industry has been fostered not only by Congress through the tariff but by the Department of Agriculture through educational assistance and research. The character of this assistance and its effects have been succinctly stated by the first student of the American sugar problem, Professor F. W. Taussig, as follows:

Probably no less effective than the bounties at the start, and more effective as time went on, was the propaganda of the

[2] As quoted in *Some Aspects of the Tariff Question,* F. W. Taussig, Harvard University Press, Cambridge, 1931, page 80, footnote 1.

[3] The Tariff Commission in 1919 estimated that only "56.8% [of the production] in the beet sugar industry would have survived under free trade." *Cost of Production in the Sugar Industry,* Tariff Information Series No. 9, 1919, page 42.

Department of Agriculture. That Department preached beet sugar in season and out of season; spread broadcast pamphlets dilating on the advantages of beet growing for the farmer and giving minute direction on methods of cultivation; maintained a special agent who kept in touch with the manufacturers and farmers, and annually reported on the progress of the industry. The result was familiarity with the possibilities throughout the country, and removal of all obstacles from inertia and ignorance, and a rapid development in all regions where there was a promise of profits.[4]

The government has assisted the development of the beet sugar industry also through the opening up, with Federal funds, of millions of acres in the dry plains of the Rocky Mountain plateaus. Enormous expenditures for such irrigation projects are made economically feasible when the land is utilized for high-value crops requiring intensive cultivation and irrigation. Sugar beets are such a crop. Long days of sunshine, cool nights, and abundant water—requisites to their successful cultivation—were found in the irrigated valleys of the West.

The net result of government aid through the tariff, educational and research assistance, and irrigation projects has been to place a heavy burden upon any "free trade" member of Congress who would rise to recommend that the traditional protection to the beet sugar industry be withdrawn.

Secondly, although the industry is not of major national significance, it is of first rank sectionally. In the western plateaus the industry is interwoven with the fabric of community life, and our traditional sugar protectionism has molded the economic life of those areas as it has in the specialized one-crop islands. Withdrawal of support by the government would have the effect of seriously damaging the whole economy of the areas involved, especially in

[4] *Some Aspects of the Tariff Question,* page 80.

the "beet counties" of Colorado and Utah. The practical effect of this economic sectionalism, based upon a policy of protection, is to make the representatives in Congress from those districts extremely sensitive to the requirements of their constituents. If the sugar beet industry were scattered thinly throughout the United States, as is the production of potatoes, a suggestion for a slow withdrawal of government assistance might obtain a more careful analysis in Congress than it would under present circumstances.

Thirdly, our form of government affords the industry great political strength. The states producing sugar beets are, in the main, in the thinly-settled western part of the United States. By virtue of the constitutional provisions with respect to the membership of Congress, these states, of course, have equal representation in the Senate with the heavily populated industrial states of the East. At any one time, therefore, the sugar beet bloc in the Senate can exert substantial legislative influence. In addition to this, the three industrial states which produce beets, Ohio, Michigan, and Indiana, are a pillar of strength in the Lower House although their production, as compared with that of Colorado or Utah, is of limited sectional importance.

Corresponding political power in Congress is not possessed by the insular sugar-producing areas. The Territory of Hawaii, Puerto Rico, and the Philippine Islands have no seats in the Senate; their representatives (delegates) may sit in the House for "debate" but may not vote. In other words, not only does the beet industry have liberal representation in Congress to support its own interests, but it is in the position of affecting the destinies of other areas involved. Any realistic approach to the sugar issue must give these facts serious consideration.

And, lastly, sugar beets are the spearhead of American

agricultural protectionism. Sugar is the leading agricultural commodity imported into the United States which can be produced domestically. Consequently, the leading national farm organizations, such as the American Farm Bureau and the National Grange, which have adopted the policy that all agricultural commodities should be produced domestically (where possible) rather than imported, have always rallied to the political support of the beet sugar industry. The slogan "The American Market for the American Farmer" has been adopted not only by the sugar interests but by organized American agriculture as a partial answer to its recurrent difficulties. If, therefore, restriction is placed upon the beet sugar industry by quotas, or if tariff protection is given sparingly, "farm leaders" protest to Congress that the basic principle of saving the home market for the American farmer has been violated. There is little difficulty in obtaining agrarian political support for sugar protectionism, even though, as consumers of sugar, the farmers throughout the United States foot a substantial part of the national bill for its maintenance.

In 1933 and 1934, therefore, when the Stabilization Agreement and the Sugar Act were being debated, the representatives of the beet sugar industry, both farmers and processors, were able to make their demands articulate and respected. Politically, they occupied a preferred position in developing the new plan for sugar. And they will play leading roles in the future.

The history of the beet industry reveals that it is in no sense a delicate, hot-house plant. From its early beginnings around 1890, when production was microscopic, it had shown a rapid and vigorous growth under protection until in 1906 output had exceeded that of Louisiana, producer of sugar for over a century. In 1908 it had outstripped Hawaii, and by 1915 it was the largest contributor

to our market except Cuba, having increased its production over eightfold in the first fifteen years of the century. After the War its growth continued, and by 1929 approximately 1,000,000 tons of beet sugar were being marketed each year.

This rapid advance was not checked by the business and agricultural depression which broke forth with such violence after 1929. With a drastic decline in the price of sugar from 1929 to 1933, bringing a decline in sugar beet prices of 27%, the sugar beet acreage in the United States was increased from 688,000 to 983,000, or over 40%.[5] As the price per ton of beets dropped to its lowest point on record, the acreage planted to beets shot to unprecedented heights. Farmers extended their acreage to offset a dropping price, an assured industrial demand being present for all they could produce. Many new farmers, as they saw the prices of their other crops (i.e., beans, potatoes, and alfalfa) dropping disastrously, were attracted to sugar beets. The industry in many farm districts, during the depression, not only bolstered up a rapidly decreasing agricultural income, but helped to offset unemployment.

The beet sugar factories, as the result of greatly enlarged beet production, experienced a yearly increase in volume during the depression, and their incomes, although smaller than in previous years, compared favorably with those of other industries.[6] Because of their relatively comfortable economic position, therefore, the beet processors, during

[5] The processors of sugar beets desired to obtain as large a tonnage as possible in order that their reduction in revenue per ton (due to the reduction in the price of sugar) might be partially offset by an increase in volume. One of the principal expenses of the industry in the conversion of sugar is the large overhead expense (depreciation, insurance, interest, etc.), and a "full run" for any one season is at all times the most desirable condition to be obtained.

[6] Between 1929 and 1933 the price of refined beet sugar had decreased by less than 20%. The output had increased by about 60%, in striking contrast with the drastic decline, 36%, in the volume of all manufactures, as reported by the Federal Reserve Board.

the development of the Sugar Act, took a neutral position rather than becoming stalwart advocates of the measure. They were willing to support some type of agreement for the stabilization of the general sugar industry, but were reluctant to make substantial sacrifices. They foresaw little positive gain in modifying the tariff system and were skeptical of the immediate benefits of the quota-benefit payment system recommended as a substitute. By reason of its background, its political strength, and its economic vitality, the beet industry was able to command a preferred position in the development of the new sugar program.

QUOTAS, ALLOTMENTS, AND PAYMENTS

It may be recalled that although the industry had not been able to obtain an unlimited yearly marketing, it had gained two points in the compromise leading up to the passage of the Sugar Act: first, it obtained a specific quota divorced from a finding by the Secretary of Agriculture; secondly, that quota was 100,000 tons larger than that recommended by the President.

The formal announcement of the marketing quota for the beet area of 1,556,166 tons was made by the Secretary in June, 1934, and within a month the total quota was allotted among the twenty-six processing companies.[7] As a result of the bumper crop of the previous crop year, 1933, there was an existing surplus of beet sugar of approximately 300,000 tons. During the summer of 1934, however, the severe drought reduced the beet crop by at least 500,000 tons, and the surplus of beet sugar was absorbed by the deficit in production. Consequently, the marketing allotments made by the Secretary to the beet processors in 1934 did not effect a real curtailment of their sales in that year, and the administrative and economic difficulties inherent in

[7] A.A.A., Continental United States Beet Sugar Order No. 1, July 26, 1934.

any allotment system were, of course, nullified. In the next marketing year, 1935, the beet crop was again short, and the allotments for that year did not disrupt the normal distribution of beet sugar. Thus, the plea of the beet interests before Congress at the time of the debates on the Sugar Act, that they be not restricted in their marketings, was gained in fact, if not by law, because of "acts of God."

After the division of the 1934 beet sugar quota among the processors, the next administrative step was to develop a program for the growers. In other agricultural programs for basic commodities, the Secretary of Agriculture had been given a free hand by Congress to determine the amount of the "adjustment" of farm production which should take place. In certain commodities like cotton, sharp differences of opinion had arisen as to how far such adjustment should go, but in sugar this was not the case. Marketing quotas had already been set up for the sugar producing areas and crop reduction would naturally be set at levels commensurate with those quotas. It was estimated that approximately 10,000,000 tons of sugar beets, from approximately 1,000,000 acres, would be required to fulfill the marketing quota set for refined beet sugar of, roughly, 1,550,000 tons. With the beet sugar marketing quota established, then, the next question related to the method of dividing the national tonnage among the 75,000 farmers. The plan finally adopted was to allocate it on a factory-district basis in accordance with the marketing allotments which had been made to the processing companies. The factory-district allotments of beets were then reëxpressed in terms of acres,[8] such acreage to be divided among the farmers in accordance with their individual past farm

[8] For example, the agricultural area serving the Superior Sugar Company (with an initial allotment of 135,340 bags of sugar) received, after minor adjustments, an allotment of 9,380 acres.

production. Thus, allotments under the contracts were in terms of acres, not beets or sugar.

The other important feature of the production adjustment contract, in addition to allotments, was that pertaining to payments to beet farmers. These payments, by law, could be equal to the difference between the "fair exchange price" per ton of beets, \$6.79 in 1934, and the actual farm price for the commodity, about \$5.16, in the same year. The differential between the "fair price" and actual price, however, was a maximum payment and the Secretary had the right, by law, to set it at a lower level if he deemed such a level to be "fair and reasonable." In this case, the Secretary's "discretion" was illusory inasmuch as one of the assurances obtained by beet producers, when the Sugar Act was before Congress, was that they should receive *full* "fair exchange value" for their commodity. This assurance was not written specifically into the Act, but was given through official press release. The decision to pay full "fair exchange value," as in the case of many of the administrative actions taken by the Secretary, was arrived at not after the law was passed but as the result of a program formulated before it was embodied in law.

The benefit contract for the adjustment of beet production was drafted in November, 1934, when the crop for that year was in the process of being harvested and converted into sugar. Obviously, it was impossible for adjustment of production of beets or of sugar to occur under those circumstances. In fact, at the time the Act was before Congress it was apparent that it was too late in the season for a reduction in acreage to be implemented in 1934. It had been assumed generally before the Sugar Act was signed that benefit payments were to be made to producers for the 1934 crop, without reduction of any kind, if those producers agreed to limit their acreage for the years 1935

and 1936. The remaining question then arose as to the character of the payments in 1934, the year in which the drought had severely reduced the production per acre.[9]

What tonnage of beets should be used as a base for the payments, the 1934 actual production or "normal" production? The beet farmers argued that the contract should provide for payments of "fair exchange value" not only upon the tons produced but upon the tons which would have been produced on the acres actually planted if normal yields per acre had been realized. The farmers won their point, and over $19,623,000 was paid upon the 1934 crop, or approximately $2.62 per ton of all sugar beets produced.

	Production of Beets Tons	*Farm Price*	*Payments by Processors*	*Benefit Payments per Ton*	*Total Benefit Payments*	*Total Receipts by Farmers*
1932	9,070,000	5.26	47,705,000	0	0	$47,705,000
1933	11,030,000	5.13	56,599,000	0	0	56,599,000
1934	7,481,000	5.16	38,577,000	2.62	19,623,000	58,200,000
1935 *	7,984,000	5.77	46,067,680	1.13	9,031,920	55,099,600

* Preliminary.
Source. A.A.A., Sugar Section.

This direct subsidy in the crop year 1934 was a little over 50% of the commercial value (the total price paid by the factories) of the crop, or $38,577,000. For 1935 the direct bounty was decidedly less. The price of raw sugar had risen considerably as a result of the quota system, and, in turn, the farm price of sugar beets had risen by about 0.70 cents per ton. Payments were made on actual production alone, not upon "normal" production upon the planted acres. For that year the farmers received a direct bounty estimated at $1.03 per ton of beets produced, or a total of $18,223,520, approximately 15% of the total value of the

[9] Although there were approximately 940,000 acres of beets planted in 1934, only 766,000 acres were harvested; the high abandonment was attributable to the shortage of water, primarily in the irrigated districts.

crop. The table on page 155 presents the essential statistical information with respect to the payments made to beet farmers.

With the receipt of about $28,000,000 in two years from the Federal government as a direct bonus, sugar beet producers found themselves favorably situated in at least four ways: they received full "fair exchange value" for their crop;[10] "fair exchange value" was paid retroactively upon the 1934 crop; substantial payments were made as compensation for loss in drought; and, lastly, in 1935 the acreage allotments found on paper did not limit the farmers' activities because the weather, not Washington, restricted the planting of the crop. Federal payments under the adjustment contracts, therefore, were bounties for production, not benefits for restriction.

These liberal payments, as provided by the Federal contracts, were conditioned, however, in one important regard: the interest of labor was to be protected by the farmers. It was clear at the time the Sugar Act was before Congress that the Federal government—through its power to tax or regulate interstate commerce—did not have the constitutional power to prohibit child labor in the beet fields. Likewise, it was questionable whether it could set minimum wages for adult labor in local agricultural production. The proponents of the Act, however, realized that child labor had been exploited in the beet fields and that wages paid to workers were often below an acceptable standard of living. They agreed that the liberal benefits of the government bounty should be shared among farmers and laborers. Consequently, the Sugar Act authorized the Secretary to include provisions in the contracts respecting child labor

[10] The producers of some other basic commodities, such as wheat and cotton, did not receive full "fair exchange value" on their production because the processing taxes were not sufficiently large. A substantial part of these products is exported and could not be taxed.

and minimum wages.[11] Using this power, the contract with beet farmers included a prohibition of the labor of children under the age of 14, and limits were to be placed upon the hours of work performed by children between the ages of 14 and 16.

The administrative problems arising from contractual prohibitions on child labor were not unmanageable. Over a period of years beet farmers' organizations and beet factories had attempted to minimize the employment of children in the beet fields. Consequently, there was almost unanimous agreement among the farmers that full cooperation should be given the Secretary in carrying out this provision of the contract; and, for the first time in its history, the Federal government through voluntary contract was able to stamp out child labor in one important child-labor employing industry. Congress was impotent to eradicate directly this evil in industry generally; but through voluntary contracts it did accomplish its objective in a narrow area.

THE BEET AREA AND THE INVALIDATION OF THE A.A.A.

So far as the beet industry was concerned, the vital provisions of the Sugar Act were the limitation of the marketings of sugar under the quota (and allotment) system and the payment of a direct bounty to producers for limitation of their output to the marketing allotments. With the invalidation of the A.A.A. by the Supreme Court (January, 1936) the use of Federal contracts for the purpose of making payments and limiting production was outlawed, but the court's ruling did not cover the constitu-

[11] Although the benefit contract empowered the Secretary to establish minimum wages for adult labor in the beet fields, no attempt was made to set such wages except in those areas where a definite dispute had arisen, as was the case in Colorado, Nebraska, Wyoming, and Montana, in the spring of 1935. A.A.A. press release, April 20, 1935.

tionality of the marketing quota and allotment system. That system remains in full force. In prohibiting the use of Federal contracts for the restriction of production and the making of payments, the Supreme Court closed one of the many chapters in the history of the beet sugar industry. Between 1892 and 1894 it had received a direct subsidy; during the following 40 years it had been protected by a tariff. Under the Sugar Act, tariff protection had been bolstered by a quota system and, in addition, direct payments under a benefit contract system were made to producers. Today the industry is protected by a tariff plus the price-raising features of the quota system.

At the present time, the western beet farmer is aware of the fact that crop control under Federal contracts was outlawed but that the quota system is intact. He knows that the immediate result of the scrapping of his contract is that he will not receive a benefit cheque for the crop grown in 1936. But this does not mean that Federal assistance will be stopped; it does not mean that he will be asked to stand on his own feet. On the contrary, he will continue to receive aid from the government, but by somewhat different methods. He will receive a direct payment under the terms of the Soil Conservation Act, but that cash bounty will be less than that obtained under the A.A.A.[12] Unlike the A.A.A., under which payments were made to producers of selected basic commodities only and for purposes of crop control, the Soil Conservation Act provides for payments to *all* American farmers as part of a program not of crop control but of improved agricultural practices. The objective of the Act is not only to conserve the soil, but also to raise the purchasing power of all farmers to pre-war levels. It is clear that this cannot be accom-

[12] H. R. 10835, an amendment to "An Act to provide for the protection of land resources against soil erosion, and for other purposes."

plished from the fund of $500,000,000 set aside by Congress in 1935 for the purpose. Consequently, beet growers who in 1935 received benefit payments of approximately $1.03 per ton, in 1936 received soil conservation payments of about 36 cents per ton.[13] However, the enhancement of the price of sugar and hence the price of beets, through the operation of the quota system, provides a second source of financial aid large enough to offset a substantial part of the difference.

Under the Sugar Act there were two types of subsidies received by beet producers, the direct subsidy from the Treasury (benefit payments) and the indirect subsidy from consumers arising partly from the tariff and partly from price enhancement through the quota system. Throughout 1936 the world price of raw sugar was approximately 1 cent. The American duty was 1.87 cents, and, consequently, the duty-paid price without the quota system would have been 2.87 cents per pound. With the quota, however, the price rose above that level to over 3.60 cents, indicating a premium of 0.80 cents over the duty-paid price. This quota premium for raw sugar is tantamount to an increase in the tariff, and it was reflected in a rise of between 50 cents and $1 a ton for sugar beets. In other words, the price-enhancing features of the quota system, together with the payments under the Soil Conservation Act, will not leave farmers in an unfavorable position.

SOME CONSTITUTIONAL PROBLEMS

One effect of the Supreme Court's decision outlawing the Federal adjustment contracts was the invalidation of the child labor and minimum wage clauses discussed above. Here certain striking characteristics of our constitutional

[13] Twelve and a half cents upon each 100 pounds of sugar produced from the beets raised by him.

system and their effects on public policy come to light. It is agreed by practically all interests that, having obtained economic security, the beet farmers, in turn, should agree to free children from economic slavery and to give adequate consideration to the welfare of the laborers in the beet fields. Members of Congress, the Department of Labor, the Secretary of Agriculture, state labor boards, farmers' organizations, and beet processors have endorsed the labor provisions in the Sugar Act as in the public interest. Under the decision of the Supreme Court, however, the Federal government is prohibited from doing by contract what it cannot do through its enumerated powers. The settlement of local labor disputes, including the prohibition of child labor, is reserved to the states. The court, of course, has not said that tariff protection is unconstitutional, and it has not passed upon the quota system or the payments which are to be made under the Soil Conservation Act. Aid to beet farmers, whether it takes the form of higher prices because of a tariff or a quota system, or whether it takes the form of direct payments for soil conservation, remains constitutional, but the conditioning of such aid has been declared to be beyond the power of the Federal government. As a consequence, the nation is clearly and directly fortifying the economic position of one group, beet farmers, and, at the same time, is helpless to protect the economic welfare of another, agricultural labor.

Beet processors will continue to receive assistance, along with the farmers. Those processors depend upon a continuous flow of sugar beets, and sufficient beets could not be obtained from farmers if the industry were not given liberal price protection. This price protection through the quota system (over and above the tariff) called for marketing allotments to beet factories in 1934, 1935, and 1936. But the beet processors raised little objection to this "govern-

ment interference"; the price of sugar has risen and their profits have risen with it. The fact that the quota system has brought an unprecedented exercise by Congress of its powers over interstate commerce, that is, the general limitation of the quantum of such commerce, may be of interest to students of constitutional law, but it is of little practical interest to stockholders in beet sugar companies watching a profit and loss statement. Effective price protection, not its precise form, is the important issue to the beet sugar industry.

Should the government have the power to regulate the prices paid for beets by the processor to the farmer? If the objective of public policy is to raise the prices of beets received by farmers to any specific level, whether that level be cost of production or pre-war price or "fair exchange value," that public objective may be defeated through processors paying less dollars per ton for the farmers' beets. Thus, if protection is afforded beet farmers through the channel of enhancement of the price of sugar, such protection may result in increased profits for processors rather than in increased income for farmers.

Congress foresaw this and, in vague terms, authorized the Secretary of Agriculture to adjudicate disputes arising between the producers and processors.[14] Disputes nearly always relate to price, so this was tantamount to authorizing the Secretary to fix beet prices, but the authorization was an empty one. The sale of beets to factories is clearly an intrastate (local) transaction, and the law of the land, as interpreted in the N.R.A. case,[15] is that the Federal government may not fix local prices. Consequently, when the Secretary was called upon in March, 1935, to "adjudicate" a dispute over beet prices, the official document was

[14] Section 8a(3) of the Sugar Act.
[15] *A. L. A. Schechter Poultry Corp.* v. *U.S.*, 295 U.S. 495, S. Ct. 837.

entitled a "finding," not a "decision." No provision was made for its enforcement.[16]

In England and on the continent of Europe the beet industry is subsidized, but public control is exercised over prices paid to farmers and the industry is operated as a quasi-public utility under government direction. In the United States, however, local price-fixing and local labor problems are outside the powers of Congress. In short, the sugar beet industry is sustained by national aid, but the government is impotent to condition that aid.

THE FUTURE

The Supreme Court decision has relieved the consumer of the processing tax on sugar but not from the costs of supporting the beet industry. Beet farmers and processors know that the quota system can be administered in a manner which will enhance their economic interests. They will undoubtedly recommend that the Secretary keep the price of sugar high by giving a scarcity value to the product through a "conservative" estimate of the consumption of sugar. The higher the price, the greater the aid to the industry, and the larger the public's contribution. With present depressed world prices for sugar (less than 1 cent per pound) and the relatively low full duty (1.87 cents), the total duty-paid price, 2.87 cents, would not be high enough to sustain the beet industry. The Secretary's estimate, under the circumstances, is of tremendous importance to the industry. If the Secretary elects to protect "liberally" the beet farmers by price enhancement through the quota system, such enhancement will be shared by all areas, the Territory of Hawaii, Puerto Rico, the Philippines, and Cuba. The costs of the insular areas are decidedly lower

[16] The dispute was between the growers and the Great Western Sugar Company and the Holly Sugar Corporation (in Colorado, Nebraska, Wyoming, and Montana). See A.A.A. press release, March 27, 1935.

than in the beet area, and consequently the insular producers will have inordinately high profits. Here lies the advantage of the direct benefit payments. The price of sugar to the consumer could be lowered without jeopardizing the income of beet farmers; that income was protected by Federal contract. The Supreme Court, to this extent, has increased the national sugar subsidy by making it impossible to pay direct bounties for crop control.

After the Court decision in January, 1936, Congress was asked to review the whole sugar situation. In the first place, the argument was advanced that the quota system should be legally strengthened. Furthermore, the beet farmer became restive; he queried: Why should I tolerate a quota system if I cannot get my "fair exchange price"? As in the summer of 1933, representatives of all the groups in the sugar industry again came to Washington. Industrial conferences were held and discussions took place among the members of the industry, Congressmen, and representatives of the Department of Agriculture. As in 1933, the industry could not agree on a program and no concerted plan was set before an overburdened Congress. In contrast with 1933, no emergency in price or production existed to justify hasty legislative action. Congress did, however, extend the quota system through 1937.[17] The arguments heard in Congress in 1936 produced the following significant points, and they will be raised again in the near future.

No objection, from Democrat or Republican, was voiced against the contention that the nation should "protect" the sugar industry. That there should be "free trade" in sugar was never whispered. The industry was to receive assistance as it had for 50 years. No one, Democrat or Republican, argued that the tariff alone should be reëmployed as

[17] The quota system was extended by a joint resolution of Congress, the Jones-O'Mahoney Sugar Resolution, signed by the President June 19, 1936.

the method of protecting the industry. That method was impossible in view of prevailing world sugar prices and the existence of capacity to increase production in the insular areas. No one, Democrat or Republican, objected to the use of a quota system. Government, not business, was to maintain the economic balance of the industry. Differences of opinion did arise, however: (a) the Republicans demanded an unlimited marketing for the beet area and the application of quotas only to the offshore areas and Cuba; [18] the Democrats,[19] in a new bill, called for the same limitations as in the original Sugar Act; (b) the Republicans asked that no direct payment be made to beet producers but that price enhancement by the quota system be the method of protection; the Democrats asked that direct payments (bounties) be made to producers conditioned as follows: the farmer was to adjust his output to conform with the marketing quotas, to pass back to labor a share of his Federal bounty, and to refrain from exploiting the child labor.

A review of the long and complicated development of the beet sugar industry reveals that it has always been the keystone of our national sugar problem. Before 1933 the industry had received assistance from the government which could not be easily withdrawn. Financial assistance through bounties and tariffs, educational aids, irrigation schemes, and price fixing in war time, had all been employed to foster and maintain this industry. Government encouraged and sustained this business. The major method of aid, the tariff, was indirect and simple, and called for a minimum of government control. As a method it failed under the world crisis in sugar and had to be scrapped. All interests, regardless of party, recognized this.

[18] Vandenberg Bill, S. 4423, 74th Congress, Second Session.
[19] Harrison (for Costigan) Bill, S. 4413, 74th Congress, Second Session.

The new method of assistance, the Sugar Act, called for government regulation (quotas) and a direct bounty (benefit payments). Because of constitutional limitations, however, the government that paid a bounty to an industry could not condition that bounty with a limitation of production. Likewise, because of constitutional limitations, the government that sustained the industry was impotent to effect an equitable distribution of the benefits among farmers, laborers, and processors.

And finally, the beet industry is certain to be protected in the future. Protection will probably include some aspects of a quota system. Shall that quota system limit the beet production? If it does not and the industry is further expanded, the cost of assistance will rise. We have been taught by our national sugar primer that once any segment of our sugar economy is allowed to expand, it is difficult to contract it.

CHAPTER XI

THE DOMESTIC CANE SUGAR INDUSTRY LOUISIANA AND FLORIDA

The cane sugar industry in the states of Louisiana and Florida has completely different historical, industrial, and agricultural backgrounds and, in consequence, the following analysis gives each separate consideration.

LOUISIANA

Of all the American producing areas, the cane sugar industry in Louisiana is the oldest and, at the same time, the most dependent on Federal assistance. It is a small industry, producing about 4½% of America's yearly requirements, but in 1935 it was our leading sugar producing state, surpassing both California and Colorado. This old industry is not widespread within the state, sugar cane being produced in about a third of the 64 parishes (counties). Furthermore, the sugar cane crop is definitely overshadowed by the state's production of cotton; their farm value in 1934 was $7,000,000 and $30,000,000, respectively. In the same year the minor crop of rice slightly exceeded sugar cane in value. The facts, however, that Louisiana contributes a small amount of sugar to the American market and that her production of sugar cane is of negligible importance to the nation's agriculture have not lessened her influence on the formulation of the American sugar policy.

Practically all the factors enumerated to explain the considerable political influence of the beet sugar industry are also present in the case of the Louisiana industry. With a long period of tariff protection and substantial Federal aid in research and education, the industry has been fostered by the government for over a hundred years. In two important respects, however, the Louisiana cane industry differs from the beet industry of the West; it is economically and financially fragile, and it is built largely upon a plantation system rather than upon a diversified and small-scale agriculture.

The economic frailty of the Louisiana sugar industry is evident in several ways. The first and most obvious is in its costs of production which are higher than those of any other area producing for the United States market,[1] primarily because of the ever-present disadvantages of producing sugar cane in our continental climate. While cane grows the year round in Florida, the insular areas, and Cuba, Louisiana's growing period is reduced by the winter frost to approximately nine months.

The lack of capacity for the industry to expand is another indication that the production of sugar cane in Louisiana, even with tariff protection, has been a relatively unprofitable pursuit. The Louisiana industry has sustained no positive growth in its volume of production over a period of 80 years. In 1854 the industry, then over a century old, produced about 200,000 tons of cane sugar; in 1933, when the Sugar Act was being developed, the crop was but slightly above that figure. At the turn of the century the crop averaged between 200,000 and 300,000 tons a year, whereas the average for the ten-year period 1925 through

[1] The Tariff Commission reported for the three-year period 1929–1930, 1930–1931, and 1931–1932 the range in costs as being from 1.923 cents per pound in the case of Cuba to 4.646 cents per pound in the case of Louisiana. *Report to the President on Sugar,* 1934, page 14.

1934 was under 200,000 tons. This lack of growth is in sharp contrast with the beet industry which increased its output over tenfold between 1900 and 1932. With the Louisiana industry constantly fighting to maintain its absolute volume in a growing American market, its relative importance has declined progressively from about 11% at the turn of the century to about 4½% at the present time. However, in the year 1935–1936, with favorable weather and an enlarged acreage, there was a bumper crop in the state carrying production to over 333,000 tons.

The "marginal" character of the production of sugar in this area is demonstrated by the wide fluctuations in its yearly output. These variations are attributable to changes in acreage planted and to the fluctuations in the yield per acre. Acreage planted has tended to shift with sugar prices while the yield of cane per acre has varied substantially with recurrences of early frosts, always a threat to production. In addition, the cane crop has suffered severely from mosaic disease which reached the peak of its destructiveness in 1926 when the crop dropped to Civil War levels, below 50,000 tons.

The high costs, the absence of long-time growth, and the wide deviations from year to year in the size of the crop explain the absence of the financial vitality found in the beet sugar industry. This does not mean that less ingenuity and skill have been applied in cane and sugar production than in beets; on the contrary the men in Louisiana have long left their mark in the development of sugar technology. It means merely that the production of beet sugar in the western states takes place under conditions as favorable as in any other beet producing area whereas the production of cane sugar in Louisiana, under the double handicap of early frosts and a short growing season, occurs under circumstances as unfavorable as any in the world.

The Louisiana planters, struggling since the Civil War in these adverse circumstances and convinced of the national importance of the continuation of their industry, have been forced to exert the last ounce of effort in obtaining adequate protection from the Federal government. For a century positive political assistance has been secured, and the industry, though not economically self-sustaining, has been maintained under our system of sugar protection. Only once (1914) has Congress planned to withdraw public support. The results, as Professor Taussig has put it, would have been that

> . . . free sugar would have caused most of the Louisiana planters, perhaps all of them, to give up sugar and turn to something else. Their industry seems to be, in the main, unable to hold its own without protection; it cannot put sugar on the market as cheaply as competitors in Cuba and Java, or as those in the better-situated beet regions. The case is the comparatively simple one of a domestic industry dependent on an import duty.[2]

The industry in Louisiana differs from the beet sugar industry, and is at variance with continental agricultural practices generally, in that the manufacturing of sugar is carried on by business units—some large, some small—which are also producers, i.e., growers, of sugar cane. These producer-processors, or plantation owners, grow at least one-third of the cane in the state and buy the remainder from about 9,000 small farmers. They are the leaders of their industry and have sought aid from Washington, not only to defend themselves agriculturally but to bolster the value of their highly specialized fixed investment in plant, machinery, and transportation equipment. Here we have an outstanding example of the maintenance of an industry by government assistance. The complete withdrawal of government aid would have an immediate adverse effect

[2] *Some Aspects of the Tariff Question*, F. W. Taussig, page 57.

on its agriculture, labor, and capital, and would upset the general economy of the southwestern section of the state.

Louisiana's Quota

The Louisiana industry, unlike the sugar beet interests, came to Washington in 1933 sorely in need of aid. Low sugar prices, resulting from the world depression in sugar, had hurt this high-cost area, and the possibility of gaining higher prices for its crop through the Stabilization Agreement or the Sugar Act promised to be a life saver for the industry. Assistance was needed, not only because prices were low but because the size of the Louisiana crop had been reduced drastically in the middle 1920's by the dreaded mosaic disease. With the introduction of new disease-resistant cane varieties from Java, the industry had conquered this disease by 1933, but it was still afflicted with the economic ailment of low income.

As in the other areas, the foremost question in the minds of the Louisiana planters at the time of the development of the new plan for sugar was the size of the marketing quota which they were to receive. But here Louisiana was in a different position from all other United States producing areas; while the latter had increased production rapidly, Louisiana had shown no growth but had suffered contraction. Consequently, a marketing quota derived from a formula in accordance with "past marketings" would have given Louisiana a small share of the total market. Her immediate past record was a declining one.

It will be recalled that under the terms of the Stabilization Agreement, Louisiana[8] was to have received a quota of 250,000 tons of sugar, a figure in excess of her current (1933–1934) production. Such a quota would have limited but not decreased her output. She wanted not limitation

[8] Florida, under the Agreement, was to receive a separate quota of 60,000 tons.

but the opportunity to rise out of her depression. After the rejection of the Agreement, Louisiana took her plea for no limitation of marketings to Congress. Although her representatives stated [4] (before the Senate Committee) that

> . . . the Louisiana sugar industry agrees with the principles of a managed economy for agriculture under the Agricultural Adjustment Administration and we believe that the best solution of the problems of the domestic sugar industry in the United States is the application of a quota system to control the distribution of sugar in the United States . . . ,

nevertheless it was stressed with finality that

> . . . We maintain that the first duty of the United States government is to care for its own citizens first.

It was the opinion of the industry that this "care" should take the form of unlimited production inasmuch as it was believed that "continental United States [sugar industry] should not be restrained under its present capacity."

This desire for unlimited production was not looked upon by Congress or the President as being in harmony with the principles of the quota system, under which all areas were to make some sacrifice for the economic benefit of the entire industry. Realizing this, the Louisianians argued that if they were to receive a limiting marketing quota, that quota should not be the one recommended by the President, namely, a quota based upon the last three years of marketings, 1931, 1932, and 1933. Under such an arrangement Louisiana's quota together with Florida would have been 260,000 tons. The Louisiana planters stated that such a formula was unacceptable to them inasmuch as the base years chosen were not "normal." Any years in the post-war period, they argued, were not typical for the industry because of abnormally low prices and cane disease

[4] *Hearings before the Committee on Finance*, 1934, pages 90 and 91.

which had reduced the size of the crop. It was claimed that the "normal production of sugar in Louisiana is most accurately exemplified by the production figures of the pre-war base period of 1909–1914. . . ." During these years (in which production had varied from a high of 414,000 tons to a low of 162,000 tons), the average production had been over 330,000 tons.[5]

Congress and the Administration, however, did not see fit to assign a quota to Louisiana based upon her pre-war output but adopted the joint quota of 260,000 tons for Louisiana and Florida recommended by the President.[6] As in the case of the beet area, this basic quota was definitely written into the Act and was divorced entirely from the formula by which the Secretary was to ascertain the quotas of the insular areas.

Although this quota was as large as the current (1933–1934) production of Louisiana and Florida, it was not satisfactory to them. A successful last-minute legislative effort was made by the planters to place a provision in the Act which would make it possible for the Secretary, by administrative determination, to raise the basic quota set by Congress. In the quota section of the Act, the Secretary was empowered for any calendar year to determine the quota

> . . . for any area producing less than 250,000 long tons of sugar, raw value, during the next preceding calendar year. . . .[7]

Inasmuch as Louisiana and Florida together had produced less than 250,000 *long* tons in 1933, the Secretary was empowered by Congress to readjust Louisiana's basic quota

[5] *Ibid.*, page 89.

[6] The joint marketing quota for Louisiana and Florida was subsequently apportioned by the Secretary as follows: Louisiana, 220,200; Florida, 39,800.

[7] Section 8a (1) C.

upward from 260,000 *short* tons. In including this provision, Congress had not solved conclusively the problem of the Louisiana quota, but had passed on its solution to the Secretary of Agriculture. Whereas the beet area had won from Congress an increase of 100,000 tons in its quota over that recommended by the President, the Louisiana area merely gained an opportunity to have the question of its quota reopened after the Act was signed.

In consequence, it was inevitable that the Louisiana industry would attempt to gain more favorable treatment regarding quotas than it had received directly from Congress. In 1934 this was not a burning issue and did not come officially before the Secretary. In 1935, however, when production allotments were being made to producers under the newly inaugurated benefit contracts for that area, the question did arise. The Secretary was urged by producers, at that time, to increase the marketing quota for Louisiana in order that the production allotments might be increased.

In a petition placed personally before the Secretary in July, 1935, the Louisiana Sugar Cane Farmers Committee, representing both producers and processors, requested an increase in the quota both for marketing and for agricultural production. It was again argued that the share for Louisiana in the total American market should be made more comparable in terms of her "past" experience. The petition pointed out that the post-war experience was not equitable for the establishment of quotas, and that the pre-war years alone were normal. Not only did the petition state that the Congressional quota was unfair in terms of the true normal production of the industry, but all the arguments traditionally advanced for "protection" of the industry were marshalled, including the highly impressive one that

> . . . There is no known profitable replacement crop for sugar cane in [southwestern] Louisiana. One hundred and fifty years of experience has proved it and the experience of the last twenty years emphasizes the proof. When forced out of cane, the district is forced into weeds.[8]

The Secretary did not act on the petition but left the Congressional quota as it was. No public statement was made by the Secretary as to the reasons for not taking such action.[9] To increase the quota would have been contrary to the basic principle of the Sugar Act, i.e., that there should be a limitation upon the further expansion of this liberally assisted industry. Inasmuch as the planters requested that the enlargement in production allotments under the contract include the right to receive "fair exchange value" upon the total allotment, such an increase would have enlarged the benefit payments, or Federal subsidy, to the planters to the extent of from $2,000,000 to $3,000,000 per annum.[10]

This controversy over the quota for Louisiana is evidence of a Congressional lapse in the Sugar Act. As originally envisaged, quotas were to be established upon the basis of the past experience of the various areas in order to check further expansion. Louisiana, like the beet industry, received a preferred position over the insular areas in having her quota written specifically into the Act and set at a level sufficiently high to prevent a reduction of production from current levels. With the inclusion in the Act of a provision giving an administrative officer the right to raise a

[8] Letter to the Secretary by the Louisiana Sugar Cane Farmers Committee.

[9] At a later date, May 26, 1936, the President of the United States, in a letter to Governor Leche of Louisiana, presented the Administration's position in not raising Louisiana's quota. The letter is reproduced in full in *The Sugar Bulletin*, New Orleans, June 15, 1936, page 3.

[10] An increase in the marketing quota for sugar of from 221,000 to 321,000 tons would have meant an increased production allotment of approximately 1,250,000 tons of sugar cane.

quota but, at the same time, omitting a clear standard as to when or how it should be done, Congress avoided its legislative responsibilities of clearly defining the policy which should be established for Louisiana. A large degree of discretionary power was placed in the hands of the Secretary in determining the amount of sugar cane which should be produced and marketed and, accordingly, the planters of the South attempted legitimately to convince him of the soundness of not limiting the growth of their industry. The question of Louisiana's quota was a fundamental one and should have been settled on its merit. It is not too much to expect that in a government of separated powers, Congress should decide such matters of public policy, especially when the statistical facts necessary in reaching a decision are available to it.

Payments

Under the Sugar Act, Louisiana received a liberal bounty. As in the beet industry, "fair exchange value" was the basis of payments. In 1934 farmers received a market price of $2.33 per ton for their cane; "fair exchange value" was computed at $4.59 per ton and benefit payments made up the difference, $2.26. As in the beet area, no adjustment or limitation of production took place that year; the crop had been planted before the Sugar Act was signed. In 1935 the difference between "fair exchange value" and actual farm price was again paid to producers, $1.48 per ton. In those two crop years (1934 and 1935), the farm value of the sugar cane crop totalled approximately $18,000,000, and about $10,000,000 was paid directly to farmers in the form of benefit payments.

This liberal direct subsidy granted in Louisiana [11] raises

[11] As has been explained in the previous chapter on the beet area, this direct subsidy for Louisiana from the United States Treasury is but a

a question: Should "fair exchange value," or pre-war farm price adjusted upward to offset the rise in prices paid by all farmers, be the objective of any sugar policy? Under our traditional tariff system the Federal subsidy was an indirect one, being given to farmers through the device of enhancing the domestic price of sugar over the world price. This enhancement of domestic price, of course, was reflected in the price received by farmers for sugar cane; the higher the price of sugar, the higher the price of cane. With the enactment of the Agricultural Adjustment Act in the spring of 1933, Congress announced as a general policy for all farm products that the Secretary of Agriculture should strive to obtain a price for agricultural producers high enough to give those producers the same purchasing power which they had enjoyed before the War. When, in 1934, Congress included sugar cane and beets among the "basic agricultural commodities," the Secretary of Agriculture was directed to raise the price of beets and cane as he had raised the price of other basic commodities. In other words, Congress declared that sugar cane growers were to receive protection from the government, through higher prices under the quota system and through benefit payments, which would restore the purchasing power that they had enjoyed 20 years prior to the passage of the Act.

Following this formula for the year 1934, the payment necessary to give sugar cane its "fair exchange value" was $2.26 per ton. But should every contract-signing farmer receive $2.26 per ton, e.g., the largest farmers, the smallest farmers, farmers who were corporations, farmers who were "hoe" tenants, farmers who were industrial processors, and farmers who raised only a "patch" of cane? Under the

small part of the total assistance received from the consumer, the indirect subsidy of the tariff plus the price premium arising from the quota system (over 2½ cents per pound of sugar).

tariff system, all farmers had enjoyed an equal amount of indirect price protection; all had been treated alike. Under the A.A.A., also, in cotton, tobacco, and wheat, all producers of basic commodities had received equal treatment under the same principle; the larger the farm unit, the larger the subsidy. When, however, the Secretary of Agriculture extended this equal treatment in Louisiana, some large corporations having an extended cane acreage received individual checks of over $250,000.[12] Naturally, when the amount of these payments became publicized, a storm of criticism arose. The fact overlooked by the critics was that this substantial *direct* aid of the Federal cheque is very little different from the *indirect* aid of the Federal tariff; the biggest producers get the biggest slice of Federal support, whether through benefit payments or through the tariff. A more pointed criticism would have been: Why is it necessary for any group of sugar producers, including the Louisiana planters, to be guaranteed "fair exchange value" for their crop? That price objective may be valid for cotton, but is it valid for sugar cane? Does that amount of price protection give a farmer his costs, his costs plus a profit, or costs and profit plus an unnecessary public gratuity? These questions cannot be answered definitely at the present time as the cost information is not available. However, the following points are suggested:

(1) The costs of producing sugar cane and raw sugar, especially on the large plantations, are probably not much higher than they were before the War. If this is so, "fair exchange value," that is, pre-war prices adjusted *upward* by the index of all American farmers' costs, probably gives some of the cane growers an inordinately large subsidy.

[12] *Payments Made under the Agricultural Adjustment Program,* Letter from the Secretary of Agriculture in response to Senate Resolution No. 265, 74th Congress, Second Session, Document No. 274, Washington, 1936, pages 117–124.

The facts indicate that with the technical changes in the processing of sugar cane and the introduction of more effective agricultural methods in its cultivation, there has been a substantial reduction in both agricultural and industrial costs in the last 25 years throughout the world, even though there has been a rise in the general price level. Reduction in costs over a period of 25 years is not an uncommon phenomenon in the agricultural and industrial world, and a policy looking to the maintenance of the prewar relationships between the prices of sugar and industrial products is a very broad and loosely drawn public objective. The data are not available; but if they were, it would not be surprising to find that the payment in 1934 and 1935 of "fair exchange value" to Louisiana producers not only protected the industry from loss but gave it a very generous margin of profit, especially those large and well-managed corporations which are primarily engaged in the production of sugar cane as a feeder for their sugar mills. Certainly it would be difficult for these producers to adduce evidence showing that a subsidy large enough to give a "fair exchange value" to sugar cane is necessary to sustain a profitable industry in Louisiana.

(2) Producer-processors, receiving a farm income and an industrial income in the same economic operation, might be placed in a different category from farmers as such.[18] When Congress laid down the policy in the A.A.A. that producers of sugar cane should receive "fair exchange value," its committees did not realize that practically one-third of the sugar cane in Louisiana was produced by persons whose primary business was the processing of their own sugar cane. Whether persons who are engaged largely

[18] In the letter of the Secretary to the Senate regarding "large" benefit payment checks, it was reported that 1.08% of the contract-signing farmers in Louisiana received 48.3% of the payments in 1934. Most of these large producers were also operators of raw sugar mills. *Ibid.*, page 102.

in the processing of an agricultural product should be treated as favorably as ordinary farmers is a valid question. They were so treated under the Agricultural Adjustment Act, and as a consequence payments were made to individual corporate processors in amounts substantially greater than to "dirt" farmers. From the point of view of the corporate processor, a benefit cheque represented an increase in the annual income of the corporation which both operated the sugar mill and raised much of the cane ground by it. It is extremely debatable whether the use of the principle, "fair exchange value," in arriving at a "fair price" for any agricultural commodity is in the public interest. It is clear that other formulae, such as costs, could be used for the protection of domestic agriculture without adhering slavishly to this particular concept. This criticism is particularly pointed when directed at an agricultural pursuit such as the production of sugar cane, which is largely bound up with an industrial process in which marked shifts in processing costs have occurred since the years before the War.

Louisiana and the Invalidation of the A.A.A.

Since the Agricultural Adjustment Act has been declared unconstitutional, Federal contracts in Louisiana can no longer be used to pay direct bounties coupled with production control. The quota system survives, however, and in the future the two major questions for Louisiana, as well as for the other areas, will be: (1) How much sugar should be marketed each year from Louisiana? and correlatively, (2) How much protection, in whatever form, should be given to the industry?

(1) After the A.A.A. decision, it was not surprising to find the Louisiana planters objecting more than ever to their limiting quota. With the renewal of the sugar fight

in Congress in the spring of 1936, the industry was ready to support a plan which would eliminate restrictions upon its expansion. It should be observed, however, that their demand for unlimited production was contingent on the restricting quotas for other areas. In other words, the planters of Louisiana were desirous of obtaining the price-enhancing benefits of the quota system, but argued that the restrictions of such a quota system be applied to the insular areas and Cuba only and not to domestic producers of cane or beets.

Any definite estimate as to the long-run effects of removing quota limitations in Louisiana is extremely rash. Future production will be affected by the size of the *indirect* bounty through higher sugar prices arising from the tariff and the quota system, and the amounts of *direct* bounty arising either through the Soil Conservation Act or from constitutionally valid direct payments not coupled with restriction of production. Assuming that liberal financial aid and continued success with disease-resisting varieties of cane continue in the future, it is possible that the production of sugar cane in that area will grow from its present level (1935) of 333,000 tons to 500,000 or 600,000 tons. Between 1927 and 1935 acreage had tripled and the production of sugar cane had increased fourfold.

There is no fundamental reason why this recovery should not continue, although the crop may fluctuate from year to year because of frosts. In the pre-war period there were years in which the planted acreage far exceeded current levels, and at the present time it is reported that there are in Louisiana 29 factories, having a rated yearly capacity of approximately 1,000,000 tons of cane, which are idle and dilapidated but "capable of rehabilitation." [14] With idle acres, idle plant, and idle men, every attempt will be made

[14] *The Sugar Bulletin,* New Orleans, February 1, 1936, page 4.

by the Louisianians not only to protect the industry as it now stands but to encourage its growth.

(2) When the sugar question again came before Congress after the invalidation of the Agricultural Adjustment Act by the Supreme Court in 1936, Louisiana producers pleaded that they should receive a new form of direct subsidy in lieu of the invalidated benefit payments. It was argued, however, that these payments should not be conditioned by a limitation of production. Congress did not see fit to make such direct payments but, as has been explained, merely extended the quota system through 1937. The Louisiana producers, like those in other areas, are now supported by an indirect subsidy (the tariff) and an additional premium arising from the operation of the quota system. However, in 1937 we may expect the planters of the South to renew their demands for a direct subsidy. Assuming that raw sugar prices at that time will be at least equal to current ones (about 3.80 cents per pound) it will be extremely difficult for them to demonstrate that such payments are necessary to sustain the industry.

It is clear that the whole problem of restriction in Louisiana is closely allied with the question of the amount of public protection which is extended, regardless of form. From the point of view of the public, the more sugar raised in Louisiana, the larger the subsidy, in whatever form, which must be paid by the consumer or the taxpayer, or both. On the other hand, if protection were removed entirely, the industry would die. The point of debate is not so much whether agriculture in Louisiana is to be *limited* under quotas; it is whether cane culture in Louisiana is to be further *enlarged* by Federal stimulus. With each advance in production in Louisiana the protection bill swells, and economic interests are built up which in the future

will plead and prove that their wiping out would cause disruption to the industry and to the state.

The planters of Louisiana have exerted for over 100 years an important influence upon the formulation of our sugar policy. Over this long period the industry has received substantial protection from the government through a tariff, but because of the natural and inevitable difficulties of producing sugar cane in the temperate zone her industry has not been able to hold its relative position in the ever-growing American market and has gone through many years of depression and very few of prosperity. Under the Sugar Act, the industry received an extremely liberal direct subsidy in addition to higher sugar prices as the result of the operation of the quota system. With this enlarged income and the development of disease-resistant varieties of cane the industry has made rapid strides, and it is demanding and will continue to demand a free hand in the production of sugar. If this demand is conceded, there will have to be a reduction in the quota of the insular areas which, of course, can produce sugar more economically than Louisiana.

At the present time Louisiana offers an outstanding example of the necessity for crystallizing our national thinking on so-called protection and free trade. Very few people in public life or elsewhere advocate that protection, whatever the form, be withdrawn completely from the Louisiana planter. But that is not the vital issue. The fundamental problem is whether or not the least productive segment of our sugar industry should be stimulated when it is clear that such stimulation will ultimately involve a more expensive protection, either in the form of higher prices paid by consumers or of direct subsidies paid from the Federal Treasury. What is sound public policy, to encourage ex-

pansion of that part of the sugar industry which has the greatest difficulty in standing on its own feet, or to protect it at its present level of production?

FLORIDA

Florida, which produces less than 1% of the total sugar requirements of the American market, is commonly coupled with Louisiana as comprising the domestic cane industry. There are striking differences between the two areas, however. The outstanding features of the Florida raw cane sugar industry are its relatively recent development and the fact that practically all of its cane is produced by two companies, the Fellsmere Sugar Corporation and the United States Sugar Corporation. These corporations are "producer-processors"—comparable in size to those of Louisiana, Hawaii, Puerto Rico, and Cuba—whose business is to grow and process sugar cane on an integrated plantation basis.

Since 1929, the first year of production, the growth of the Florida industry has been rapid. This is the result both of an increase in acreage and of the high degree of efficiency reached, not only in the production of cane but also in its conversion into raw sugar. Agricultural costs, because of the richness of the soil and the twelve-month growing season, appear to be lower than those in Louisiana. The vigorous growth of the industry during the three most disastrous years in American sugar history (1931 through 1933) is in striking contrast to the experience of the Louisiana planters. The Florida industry is young, flourishing, and profitable, and with abundant lands in the Everglades there was, prior to the passage of the Sugar Act, no reason to expect any diminution in its development.

Representatives of the Florida industry appeared before Congress at the time the domestic quotas were being established and concurred in their willingness

> . . . to cooperate along lines that will mean an adjustment to the conditions that will bring about a proper relief to the domestic sugar industry. . . .[15]

They did not, however, concur in the proposed establishment of a joint quota which would place limits on the future growth of the domestic cane industry. Congress did not see fit to establish individual quotas for Louisiana and Florida but proceeded to group the two with a total allotment of 260,000 tons. The division of this tonnage between the two states was left in the lap of the Secretary of Agriculture, and the future growth of our newest sugar area was thus to be shaped by an administrative officer.

The necessity for the division did not arise[16] until the Louisiana benefit contracts were developed under which her producers received a production allotment of approximately 221,220 tons and the producers of Florida 39,780 tons. The division was based upon the past production of the two areas, the years 1932–1933 and 1933–1934 being used as a base. The marketing and production allotment for Florida, set down in its benefit contract, cut about 28% from the *estimated* 1934–1935 crop and entailed the largest percentage restriction of the three domestic areas producing sugar.

It was apparent that this restriction of sugar production in Florida would have serious repercussions, particularly in view of the fact that the industry had been expanding rapidly and possessed the physical capacity, in lands and mills, to continue that expansion in the future. During the ne-

[15] See *Hearings before the Committee on Finance,* 1934, page 205. Statement of representative of the Florida sugar cane industry, appearing for a committee of the State Chamber of Commerce, appointed by the governor.

[16] Inasmuch as the quotas were a limitation upon the marketing of sugar, and inasmuch as the 1933–1934 crop was less than the quota of 260,000 tons, it was not necessary for the Secretary of Agriculture in 1934 to establish allotments as to marketing.

gotiations of the benefit-contract between the Secretary and the Florida industry, it maintained that inasmuch as its production allotment was based upon a past experience comparable to that of Louisiana, it should also receive payments based upon the formula of "fair exchange value." It may be recalled that this formula had been used for Louisiana producers, large or small, on plantation or on farm. Under these circumstances, the two sugar-producing corporations of Florida received payments based upon "fair exchange value." But unlike Louisiana or the beet area, these payments were in compensation for restriction and not entirely a bonus for producing sugar. Accordingly, for the year 1934–1935, the total payments to all producers in the state of Florida amounted to $864,968.

At first glance, the desirability of two corporations receiving such large direct payments is questionable. Two facts must be considered, however, before a logical criticism of this grant of public assistance can be made. First, Florida's quota, applying to our newest sugar area and calling for a large reduction in output, took insufficient cognizance of the rate of development of her industry. The 1935–1936 crop might easily have amounted to 75,000 tons, whereas the allotment permitted only 44,000 tons. The extra tonnage which could have been produced would probably have brought a net revenue equal to that which was received from the government. Assuming that it was reasonable to make some compensation to the Floridians for restricting their production and for foregoing further growth, it still remains questionable whether "fair exchange value" should have been the formula for arriving at the amount of that compensation. As suggested above in connection with the beet area and Louisiana, the concept of paying any cane producer "fair exchange value" is open to criticism. This concept rests upon the belief that the pre-

war price relationship existing between agricultural and industrial products was an equitable one. This may or may not hold for agricultural commodities in general; its validity in the case of sugar is highly questionable. The use of "fair exchange value" for sugar cane rests, also, on the assumption that its cost of production remains constant, and here the argument appears to break down. Costs in cane growing and sugar manufacture have shifted over a period of time with technological changes and advances in industrial chemistry and engineering.[17]

The second point raises the issue of sugar protectionism generally. Florida producers, as well as those in the beet area, Louisiana, and the insular areas, have and will receive an indirect payment from consumers, arising from the tariff and quota system, substantially greater than the direct payment received from the Treasury. For example, in the 1935–1936 crop year, Florida sugar producers received a price, roughly, of 3.50 cents per pound or about $70 a ton. Calculated conservatively, if no protection from the tariff and quota system were forthcoming,[18] the price received would probably be 1.50 cents per pound or $30 per ton. The difference, $40 a ton, represents an indirect payment to these producers by the consumers of sugar. Fundamentally, this indirect payment is the same as the direct payment of a Federal bonus. The fact that the company is benefited by higher prices, rather than from a Treasury cheque, and that the consumer rather than the Treasury foots the bill, does not change the picture. As has been pointed out in the previous chapters and as will appear again, the public question still remains one of how much

[17] The annual report of the United States Sugar Corporation reveals that the cost per ton of cane dropped from $3.86 in 1931–1932 to $2.93 in 1934–1935, and the cost per 100 pounds of raw sugar from $2.82 to $2.35 in the same interval. *Fourth Annual Report,* 1934–1935, United States Sugar Corporation, page 7.

[18] See Chapter XVI.

assistance should be given and not merely what form that assistance should take.

The case of Florida raises a clear issue as to what objective should be adopted by the government. With the abandonment of the Agricultural Adjustment Act, direct benefit payments to Florida ceased. Through the quota system, however, the Florida industry, like the others, still receives an indirect bounty in the form of enhanced price. On the other hand, expansion is prevented by the quota system through 1937. Florida will probably appear before Congress at that time to argue for a removal of her marketing restrictions. If, with Louisiana, she gains her point, she cannot reasonably demand the payment of a direct subsidy. With an unrestricted production, even if prices should drop below their present level, the Florida industry would be in a position to continue her long-time growth.

There is no better example in the contemporary economic and political scene of the close relationship between government and business than that found in the case of the Florida raw cane sugar industry. Since its inception in 1929 it has spent three years under a tariff system, two years under a quota system with benefit payments, and one year under a quota system with Soil Conservation payments. Its future will be uncertain until some permanent sugar policy is adopted by Congress. But with its low cost, the Florida industry is in as favorable a position as any sugar industry, continental or insular, to operate successfully under a policy of unlimited production without direct payments.

CHAPTER XII

HAWAII, PUERTO RICO, THE PHILIPPINE ISLANDS: THE BACKGROUND

The long and complicated history of our national sugar policy has not been grasped, even in its broadest outlines, by most members of Congress or by the average student of American affairs, let alone the man in the street. The fog of misunderstanding which has surrounded the entire sugar problem has been especially dense with respect to the Territory of Hawaii, Puerto Rico, and the Philippine Islands. The fact that many letters received in Honolulu are addressed "Honolulu, the Kingdom of Hawaii" and that a United States dignitary once referred to the Governor of Puerto Rico as the "President of the Republic of Puerto Rico" are extreme but not uncommon manifestations of the fundamental misunderstanding which has always prevailed in this realm of our national experience. The politics of our territories and possessions, excepting Alaska, are largely the economics of sugar, and an understanding of that commodity cannot be reached unless careful consideration is given to those three islands. In doing this, consideration must be given to our political ties with these areas as well as to the economic aspects of their sugar industries.

POLITICAL TIES

There are two sets of historical circumstances bearing on the relations of the insular areas to the United States.

The first is that Hawaii was taken into the United States as a territory through a treaty signed by an independent republic, the Republic of Hawaii. On the other hand, Puerto Rico and the Philippine Islands were taken by military occupation. This fundamental distinction between Hawaii on the one hand and Puerto Rico and the Philippines on the other has permeated their relations with the United States since 1898 and will continue to affect them in the future.

The background of the Hawaiian Islands is fairly clear. In the nineteenth cenutry, during the wave of manifest destiny extending beyond the shores of the United States, military officials recognized that Hawaii occupied an important and strategic position in the Pacific Ocean. It lay approximately half-way between San Francisco and the Orient and was the only important port in the Pacific adaptable as a military outpost for the United States. Consequently, from the beginning there was an important element that looked forward to the time when Hawaii would become American territory. In addition to these military reasons, the Hawaiian Islands for over 50 years were the site of an active American colony organized for the purpose of bringing education and religion to the carefree "backward" peoples of the southern Pacific. And, lastly, the importance of these islands to American capital became increasingly apparent with the development of an active commercial trade between California and the Orient. Honolulu became the most vital port in the Pacific Ocean for trans-Pacific freighters and the whaling fleets operating in the north Pacific seas. The capital accumulated from this trade naturally tended to flow into the development of a semi-tropical agriculture on the rich, volcanic soil. The use of the soil to provide foodstuffs for the small native population would afford slight gains and it became clear

that the United States market 3,000 miles away must be tapped. It was apparent that the agricultural commodity finally accepted would be one requiring heavy rainfall and a continuous season of bright sunshine. In addition the crop should have a high unit value capable of meeting expensive transport costs and should bear a low rate of deterioration in transit. Rice, tobacco, coffee, and sugar were all developed experimentally but sugar was the obvious choice. If, it was argued, this sugar could be sold duty-free in the American market, it would be the ideal commodity to be developed by the American pioneers in Hawaii.

In 1876 a reciprocal treaty was signed by the United States and Hawaii under which sugar was permitted free entry. The economic effects of the treaty were far-reaching and the immediate result of taking Hawaii inside the tariff wall was to accelerate her production of sugar for export to the United States. By 1890 approximately 150,000 tons of sugar were being shipped each year, and the cultivation of sugar cane became the outstanding industry of the Islands. This enlarged production in turn brought increased investment by American capitalists and the economic dependency of the Islands on the "States" steadily grew. With this cementing of economic interests upon a foundation of mutual military and political ties, a structure was built which some day would fly the American flag. Temporarily, this structure was threatened by the McKinley Tariff Bill of 1890 which permitted the free entry of all sugar into the United States and which called for a direct bounty. But the bounty, established to offset the financial effects of withdrawal of the duty, was restricted to the old cane industry of Louisiana and to the industrial infant of the West, beet sugar. The withdrawal of the tariff, of course, lowered the price of sugar for Hawaii, and property losses were experienced.

It is impossible to measure exactly the part played by economics in later events, but it is probable that the withdrawal of tariff protection was the prime cause of the successful revolt led by the American pioneers against the Hawaiian Queen in 1892 and the immediate appeal to Washington for annexation.[1] Shortly afterward, President Harrison laid before the Senate a treaty to annex Hawaii but the final step was delayed under his successor, President Cleveland. It was not until 1897 that the Hawaiian Islands, by this time the Republic of Hawaii, were annexed by treaty and "incorporated into the United States as an integral part thereof." Subsequently, on July 7, 1898, a joint resolution of Congress approved the annexation and two years later Congress established the Organic Act giving a territorial form of government to the Islands.[2] Since that time Hawaii has been within our tariff wall on the same footing as Louisiana, California, or any other state.

Imperialism is difficult to identify. From time to time the cynical have interpreted all expansion of America beyond her borders as the direct result of economic causes culminating in the subjugation of helpless and ignorant native people. This explanation is too simple. In the case of Hawaii, it is clear that there had been built up a substantial colony of American traders and missionaries 50 years before the entrance of sugar. Hawaiian capital was largely American capital and by race, tradition, and language, the predominant economic groups in the Islands

[1] This episode is described tersely by the Beards as follows: "Replying brusquely to the reactionary policies of the Queen, the foreigners in Honolulu, mostly American, fomented a revolution and upset her tottering throne. In the course of this revolt, American marines were landed from a warship conveniently at hand. A provisional government was erected and the flag of Washington and Lincoln was hoisted by the United States minister, J. S. Stevens." *The Rise of American Civilization,* Volume II, page 360.

[2] An Act to provide a government for the Territory of Hawaii, approved April 30, 1900.

were as American as the pioneers of California. Economic, military, cultural, and racial factors had led to a very intimate relationship between the leaders of this "colony" and the States, and it was truly a manifestation of its destiny to become a Territory of the Union. The constitutional protection guaranteed at the time of such incorporation was consonant with the economic and political developments which had preceded its annexation.

Puerto Rico was ceded to the United States by Spain under the Treaty of Paris (1899) following our military occupation during the Spanish-American War. No request for such occupation had come from the island, and the Spanish-American War had not been waged for the avowed purpose of bringing her under our flag. At first she was regarded as conquered domain and remained under military control until Congress provided her with a system of government. Puerto Rico was not incorporated technically as a Territory of the United States, but the island people are American citizens and the American flag is theirs.

The Organic Act, passed by Congress in 1917, set up the framework of the legislative, executive, and judicial branches of the insular government. A governor having veto power over the acts of the local legislature was to be appointed by the President of the United States. The income tax, tariff duties, and excise taxes paid by the Puerto Ricans were to be segregated into a separate fund for use in the islands only.[8] Under the Organic Act the insular people have assumed increasing political duties and responsibilities. Although there has been a clamor from time to time for the granting of statehood, public opinion in the United States has not generally supported it. Little enthusiasm has been aroused in the mainland for such a

[8] It is to be noted that in the case of Hawaii such funds come into the United States Treasury.

political relation, a position easy to understand in view of that fact that statehood has never been granted to an "offshore" area. In addition, although American capital and business enterprise have dominated the island, nevertheless by language and tradition the largest portion of the population is Spanish.

There has been, from time to time, a subdued cry for Puerto Rican independence, but that cry subsides when it is pointed out that complete political independence would probably call for an economic divorce from the American tariff system. When it was proposed in Congress in 1936 that the Puerto Ricans be given the opportunity to elect (by ballot) whether or not they should be free or under our flag, there was a burst of protest from the island. Political independence, it was argued, would mean economic distress and the game would not be worth the candle; a political freedom which would cause the sale of sugar on the unprotected world market at less than 1 cent per pound, instead of on the United States market at over 3 cents, would be economic bondage, unless that freedom were accompanied by a favorable reciprocity treaty.

The Philippine Islands are in an altogether different category. There are three major characteristics which have colored their relationship with the United States. In the first place, these islands, unlike Hawaii or Puerto Rico, lie in the Orient over 6,000 miles from San Francisco and over 9,000 miles from our national capital. The great distance from the United States has been an obstacle in bringing these islands within her orbit. Cuba is only overnight from Miami and Puerto Rico is but three days from New York by boat, and both of these islands are drawn much closer by regular air transportation. At present the long trek across the continent and over the Pacific by ship to the Philippine Islands, almost one month's travel, has

always placed them on the borderline of our political thinking. Second is the fact that for three centuries before the Spanish-American War the Spaniards had brought to the Islands their language, their culture, and their law as well as economic supervision. Although American traders had taken part in the commerce of the Philippine Islands before annexation, the trade with the United States was of small importance. Unlike Hawaii, the leaders of the Philippine Islands were predominantly Spanish and Spanish tradition, language, and culture have not vanished with American occupation. Third, and of striking significance, is the fact that important groups of the island people have never asked for or consented to the political domination of the United States. They have always looked forward to their independence. American occupation in 1898, the first step toward overwhelming the weak and tottering Spanish colonial power, was not accepted as a happy manifestation of the "white man's burden" and for several years a bloody struggle took place between groups of Philippine patriots and the American military forces. The history of the Philippine Islands under American rule, therefore, has been characterized by the development of the arts of local government by the Philippine peoples under American auspices until they might achieve greater independence. United States citizenship was not extended to these Asiatic peoples.

Because of their great distance from the United States, their Spanish inheritance, their lack of traditions similar to those of the United States, and the continuous agitation for independence, it was quite certain that at some time they would win their freedom. The important question, however, has always been not whether they should be made independent but what form that independence should take. Certainly, at no time has serious consideration been given to the admission of the Philippines as a state.

At last, by the provisions of the Philippine Independence Act of 1934,[4] the long-hoped-for independence came into view. After the adoption by the people of a constitutional form of government acceptable to the President of the United States, in accordance with the provisions of the Independence Act, the Philippine Commonwealth was inaugurated in November, 1935. The Independence Act provides that within ten years (1945) the Philippines are to become an independent foreign country and the political ties between the United States and the Islands are to be severed. As under the once effective Platt Amendment for Cuba, the United States guaranteed (for ten years) the islands against external aggression and committed itself to maintain domestic peace in times of emergency. On the economic side, the Act provides for a gradual transition until, at the end of the ten years, Philippine exports, including sugar, will lose the protection of our tariff. It is anticipated that the Philippines will become not only independent politically but independent economically. In short, the Independence Act, bringing independence for the Philippine Islands, is as natural a result of its 36-year relationship with the United States as was the eventual inclusion of the Hawaiian Islands as a Territory of the Federal Union.

Discussion of Cuba is postponed until a later chapter but some of the circumstances surrounding that area should be anticipated at this point. The immediate effect of the Spanish-American War was to speed the annexation of Hawaii and to bring American military occupation, followed by military governments, to Puerto Rico, the Philippine Islands, and Cuba. Cuba was the first of the three to gain her independence (1902) but this freedom had politi-

[4] H. R. 8573, an Act to provide for the complete independence of the Philippine Islands, 73rd Congress, approved March 24, 1934.

cal and economic strings attached. The political qualification was embodied in the Platt Amendment which gave the United States a political protectorate over the area; the economic qualification was embodied in the Trade Treaty of 1903 which gave definite tariff preference to Cuban exports to the United States, chiefly sugar.[5] The political treaty brought spasmodic American military occupation in Cuba and today, even though the Platt Amendment has been repealed (1934), the maintenance of Cuba's political tranquillity is a major problem of our State Department. The maintenance of this political peace, which was thrown into chaos following the expulsion of President Machado in some of the darkest days of Cuba's history (August, 1932), called for a reorientation of the American sugar policy with respect to that island.

A review of the political aspects of the extension of America's power shows that four types of relationship arose between the United States and the insular areas.

(1) *Territory.* Hawaii became a part of the United States by treaty following negotiation. By the terms of this treaty the people of the islands became citizens of the United States with full constitutional rights, and at the present time the only conceivable change in our relationship with Hawaii would be the granting of full statehood.

(2) *Possession.* Puerto Rico, brought under the American flag by military occupation and with a linguistic and cultural background different from that of the people of the United States, has never achieved a clear-cut status. Her people have been granted United States citizenship but they have had a limited home rule and limited constitutional rights. Complete political independence or territorial status is possible, but statehood will probably never be realized.

[5] A more detailed discussion of these treaties is found in Chapter XIV.

The Philippine Islands, taken by an act of war, worked for 35 years for political independence from the United States. During this period, as in Puerto Rico, their people did not enjoy full constitutional rights or complete home rule. Unlike Puerto Rico, United States citizenship was not granted.

(3) *Political protectorate.* At the present time, with the inauguration of the Philippine Commonwealth, the United States has assumed the obligation of protecting these far-distant islands from external aggression and internal disorder. As is customary in such political protectorates, important provisos check the free hand of the Philippine government in its political alliances and treaties with other foreign countries and in the administration of its external fiscal affairs. Until complete independence is achieved in 1945, some degree of economic protection will be extended, but that protection, under the terms of the Independence Act as now formulated, will disappear at the termination of the ten-year period.

(4) *Sphere of political influence.* Since 1898 the United States has exercised a strong political influence over the external and domestic affairs of Cuba. This influence has taken the form not only of a treaty outlining the vague but important powers of the United States, but also of military intervention from time to time to carry out these powers. At present, although the treaty granting these powers has been nominally terminated by mutual agreement, in fact the sphere of influence of the United States has been maintained.

ECONOMIC TIES

It is readily apparent that America's political relationships with her insular areas, with the exception of Hawaii, have not been clear-cut and are likely to vary in the

future. On the economic side, however, ties have been developed which have had direct and far-reaching effects. The one overwhelming economic fact present from the beginning is that the Territory of Hawaii, Puerto Rico, and the Philippines (since 1909) have had the protection of the sugar tariff on an equal footing with domestic producers.[6] The three insular areas have produced sugar and exported it to the United States duty-free. In the case of sugar, therefore, the United States (unlike England) adopted *colonial equality,* not *colonial preference.* The benefits flowing from this equality lay in the high profits arising from the production of sugar for the American market, profitable because the cost of production in these areas was lower than that of domestic beet and cane producers although the price received was the same. As a consequence, sugar production in the three insular areas was stimulated until it became the all-important and basic economic pursuit. Our sugar policy, formed after the Spanish War, was of more immediate significance than our political policy. Whether or not a Puerto Rican has the same rights of free speech as a citizen of Boston is of small concern to him compared with whether he may sell his sugar in the United States under a protected price (over 3 cents) rather than at the world price (less than 1 cent) like his neighbors in Santo Domingo and Haiti.

The outstanding economic effect of tariff protection in the insular areas was to make them predominately one-crop countries. It is true that large quantities of tobacco, coffee, pineapples, and fruits are produced in the Territory of Hawaii and Puerto Rico, and copra, cocoanut products,

[6] In the case of the Philippine Islands, a 25% preferential was given upon her imports over those of foreign countries after the United States took possession. In 1909, by the Payne-Aldrich Act, free trade was extended to the Philippine Islands, but free trade upon sugar was restricted to 300,000 tons. In 1913 the Underwood-Simmons Law removed the restriction upon the quantity of sugar which could enter duty-free.

tobacco, and gold are produced in large volume in the Philippines for export to the United States, but each of these islands has tended to concentrate on the commodity which affords the maximum return. The product which is most amenable to economic development is sugar as long as it is not subject to duty. Free sugar has brought a rapid increase of production in the offshore areas but this increase has not taken place at the same time in all areas or at the same rate of speed. The following table shows in summary form the character of this growth and its effects upon Cuban and other foreign sugars in the pre-war and post-war periods.

DELIVERIES OF OFFSHORE SUGAR TO THE UNITED STATES
(in thousands of short tons, refined basis)

	1902	*1915*		*1922*	*1933*	
Territory of Hawaii	348	570	+ 64%	517	925	+ 79%
Puerto Rico	95	336	+254%	349	739	+112%
Philippine Islands	(nominal)	135		240	1,160	+383%
Total United States Insular Areas *	446	1,041	+134%	1,110	2,828	+155%
Total Cuban Contribution	891	2,063	+132%	3,237	1,496	− 54%
Other Foreign Contribution	1,006	23	− 98%	42	(nominal)	....

* Including a negligible amount from the Virgin Islands.
Source: *Report to the President on Sugar*, 1934, page 160.

These figures reveal that the Hawaiian industry was firmly entrenched before the Spanish War. Between 1902 and 1915 it strengthened its position and, with the rapidly growing Puerto Rican industry, came to be a leading insular contributor to the American market. Between 1922 and 1933, production in the Philippines, the last insular area to show a remarkable growth, was stimulated until these islands became the largest contributor, except Cuba. The net result was that before the War, the American areas together with Cuba had pushed foreign sugar from our markets; after 1926 the guns were turned on Cuba and she

was forced to contract her industry under the pressure of a swelling insular production.

This rapid advance in the sugar production of the three insular areas was not due entirely to the stimulus of high prices arising from tariff protection in America. Other factors played important roles, such as the development of more productive varieties of sugar cane and the employment of more efficient agricultural and engineering practices, including the introduction of irrigation in Hawaii and Puerto Rico and the modernization of the industry in the Philippines. It is fair to state, however, that the enhancement of the United States price over the world price through the American tariff made the production of sugar cane the most profitable pursuit in these areas. The fact that they increased their production after 1925, at a time that Cuba was being pushed out of the market, suggests that if all areas had had equal treatment in the American market, Cuba, the lowest-cost area, would have stood the economic test of open competition, some of the producers in Hawaii, Puerto Rico, and the Philippines would have fallen by the wayside, and others would not have gone into the business at all.

The colonial policy of the United States, with tariff protection as its highlight, molded the economic face of these islands. The direction of their economic life was arrived at, not by a system of government "planning" but by aids through the tariff. With unrestricted production a form of economic life extremely difficult to change was indelibly stamped upon them. This was equally true of the continental beet and cane areas, but a discouragement of sugar production in California, Colorado, or Louisiana would not have shaken so violently the economic foundations of the states involved. It is certainly true of Hawaii and Puerto Rico, where the activity of more than half

the people is bound up with the production of sugar cane and where the livelihood of thousands of laborers, the value of miles of railroads, the tax income of the municipal and insular local governments, and the assets of banks hinge upon the price of sugar.

In fact, the volume of production and the price of sugar, although both have been shaken because of the drastic drop in world prices and the reductions in production necessitated by the quota system, have not been fundamentally upset over the past 35 years. The insular areas have never experienced the disaster which would result from a decline of their sugar industry. Cuba, on the other hand, who saw the value of her sugar crop drop by over 80% (1926–1932), offers a perfect example of the ramifications of destruction of the all-important commodity in a one-crop country. She experienced bank failures, a dislocated budget, a default in government bonds, wholesale business reorganization and bankruptcy, widespread unemployment, starvation, and political unrest, all of which finally culminated in a series of dictatorships and revolts. Similar economic events would doubtless occur in Puerto Rico if all tariff protection were withdrawn or if limitations of supply were imposed, differing drastically from those now prevailing.

Our equalitarian sugar policy in the three American insular areas and our preferential treatment to Cuba have not only molded the economic and social lives of their people but have created strong economic ties between them and the United States. This economic bond is reflected in our trade with these areas. In 1900 the value of our shipments to the four insular areas was approximately $39,000,000. With each increase in our purchases of sugar and other miscellaneous commodities our shipments to these areas were enlarged and by 1925 they had reached the

enormous total of over $412,000,000, or approximately 9% of our total exports for that year.

This enlargement in our trade to the islands cannot be entirely accounted for by the growth in our overseas trade in general. It was based upon the trade in sugar which grew faster than trade as a whole. Large quantities of machinery, petroleum, and miscellaneous equipment were necessary both to industrialize the sugar industry and to build a transportation system for these tropical areas. In addition, the economics of these one-crop areas called for large-scale purchases of American cereal and meat products, especially flour, pork, and lard. The volume of this trade fluctuated with changes in the price of sugar but it increased from year to year with the demand of the growing population of the United States for larger supplies of sugar. Consequently, American producers of machinery and agricultural commodities have always taken into consideration the price of sugar in estimating possible sales to these areas.

As our trade (receipts and shipments) with the insular areas grew, it was natural that their trade would be carried on for the most part with the United States. For example, in 1900, 60% of Puerto Rico's external trade (approximately $9,500,000) was with the United States; by 1925, over 90% of her total trade (approximately $189,000,000) was with the mainland.[7] This diversion of trade to the United States was particularly noticeable in the Philippine Islands whose major overocean trade had, in 1900, been carried on with the Orient and with Spain. Although our share of the Philippine trade has never assumed such large proportions as our share in the trade of Hawaii and Puerto Rico, still by the year 1925, $178,000,000 out of a total trade of over $269,000,000 came to the United States.

[7] In the case of Hawaii, the percentage of total trade with the United States, because of its early economic tie, was very nearly the same in 1925 (93%) as in 1900 (97%).

It is a commonplace that an increase in the trade between two areas brings a closer commercial and financial relationship. A classic example is the British colonial and economic policy which brought about the economic development of Canada, India, and Australia during the nineteenth century. Such development was reflected in the substantial quantities of raw materials taken from those areas and the large exports from England of machinery and textile commodities in exchange for the raw materials. In addition to this trade and as a corollary to it, British capital in the form of investment in the railroads, public utilities, industries, and local government bonds of her colonies made London their commercial and financial center. The United States followed this pattern in the development of her Pacific and Caribbean islands. American capital flowed into their sugar industries, their railroads, and their public utilities. Substantial investments were made in their government bonds. Furthermore, there was an extension of short-term commercial credits which interwove their financial systems with the commercial banking system of the United States. New York City became the refining center of imported raw sugar and the site of the sugar exchange upon which the trading in raw sugar took place. Wall Street became banker to Puerto Rico and Cuba not only for the financing of sugar, public utilities, and railroad industries, but also for the financing of the governments, both central and municipal, of those areas. On a smaller scale San Francisco became the refining center for Hawaiian and Philippine sugar and her banks became closely and intimately allied with the islands.

After the Spanish War, America's territory was extended beyond the mainland, and although the political status of the newly acquired areas was at no time firmly

fixed, with the exception of the Territory of Hawaii, the economics of sugar brought these areas into our commercial and financial orbit. The Constitution may or may not have followed the flag, but the American dollar did. Sugar production, under an equalitarian tariff policy, was stimulated to a point where Cuba, adversely affected by the growth of economic nationalism in Europe, was crowded from the markets of the United States. The Sugar Act reversed this trend; it divided the benefits of the rich American market more equitably between the sugar islands of the United States, on the one hand, and Cuba, on the other.

We have already seen that the protection of the sugar industry in the United States resulted largely from the desire to maintain a sugar industry in the western beet area and Louisiana. We now see that one of the major reasons for the continuation of that protection is the fact that it is necessary to maintain the standards of living now existing in the insular areas. An enormous and immobile labor force would become idle without sugar. In the Philippine Islands the favorable American market for her sugar has raised the standard of living substantially over that of peoples in neighboring countries like Java. In the Hawaiian Islands the favorable market for sugar has been the major force in creating a standard of living probably higher than that of most agricultural districts in the United States and higher than in any similar insular area in the world. And, finally, tariff protection for Puerto Rico has helped the people of that overpopulated area in their fight for a higher standard of life. The sudden withdrawal or drastic curtailment of the protection which has been given to these areas for over 35 years would upset their one-crop economies and would culminate in disorder and social strain. Few informed persons with no ax to grind suggest

today that these islands be completely exposed to the winds of international competition.

It may or may not have been a manifestation of destiny to take these areas under the American flag. It may or may not have been poor and ineffective national planning to stimulate their industries by a protective system which brought about a one-crop economy so vulnerable to economic change. Our tariff policy may have unduly enriched certain capitalistic producers. These are matters of debate and conjecture but there is one undeniable fact: our sugar policy, with its power to change the economic and social life of these islands, cannot be drastically shifted without creating chaos and distress.

CHAPTER XIII

THE INSULAR AREAS UNDER THE SUGAR ACT

Our new sugar policy did not withdraw national financial support from the three insular areas but directly affirmed it. The new method of giving that support was through quotas and payments rather than through the tariff alone, and it gave further assistance to Cuba by increasing her marketing and lowering her duty. The Sugar Act not only modified the traditional tariff system; it represented the first real change in our colonial policy in 35 years and consequently affected vitally the affairs of the islands brought under the flag at the turn of the century. The new sugar plan corrected many evils but at the same time raised a long series of questions still unanswered. Our colonial sugar policy remains in a state of flux.

Under the Sugar Act the American insular areas were to receive treatment different from that afforded to the mainland producers in two ways. First, their quotas, determined by the Secretary of Agriculture in accordance with the broad formula provided by Congress, were to bring a more severe reduction of marketings than that for the domestic producers. Insular producers were to experience reduced production and sales; domestic producers (excepting Florida) were merely limited as to their future growth. In the second place, the producers of the three insular

areas were to receive direct payments differing in amounts from those of the continental producers. The continental producers were to receive "fair exchange value" for their product; the producers of the insular areas, on the other hand, were to obtain some part of the processing taxes, $10 a ton, which accrued upon the specific sugar produced by them. Such taxes were to be set aside in the Federal Treasury in separate funds for the specific use of the three insular areas involved. These funds, however, did not need to be paid out as benefits to contract-signing producers, inasmuch as the Act specified that the Secretary had the responsibility of deciding whether they should be used for the making of direct benefit payments to producers of sugar cane, or for the broad and sweeping purpose of aiding agriculture "generally" in the insular areas, or both.

This new policy for our insular areas posed the triple administrative problem for the Secretary of Agriculture of establishing a quota for each island, including the allotting of these area quotas among the various processors, of drawing up production adjustment contracts with producers and making payments thereunder, and of formulating and inaugurating plans, if any, for the "general benefit of agriculture." It was obvious that the administrative problems to be solved would be far more complex than those in the continental areas. The islands had accumulated mountainous surpluses of sugar and cane, and their producers had had little experience in dealing contractually with the Secretary of Agriculture. But the outstanding obstacle encountered in carrying out the mandate of Congress lay in the definitely different circumstances, both historical and current, surrounding these three areas. These circumstances—some temporary, some permanent—made imperative the drafting of a separate agricultural program for each of them.

THE TERRITORY OF HAWAII

At the time that the Sugar Act was under consideration by Congress, the representatives of the Territory of Hawaii protested against receiving a status differing from that accorded the continental producers. When Congress fixed the beet quota at a specific figure of 1,550,000 tons, an increase of 100,000 tons over the President's recommendation, and then proceeded to place the Territory of Hawaii, respecting quotas, in the same category with Puerto Rico, the Philippine Islands, and Cuba, violent objection was heard. It was argued that any discrimination against Hawaii in the establishment of her quota not only was an attack upon her constitutional rights but violated the spirit in which Hawaii had been received into the United States. By treaty, it was pointed out, she had become an integral part of the nation and irritation against Congress arose for what was considered to be a breach of that covenant entered into 36 years before. This irritation was aggravated into bitter resentment when the Secretary, in accordance with the Act, employed the years 1930, 1931, and 1932 as the "three most representative years" for the determination of the Hawaiian share of the market, rather than 1931, 1932, and 1933, which were employed in determining the quotas for Puerto Rico, the Philippine Islands, and Cuba. The reason given by the Secretary for using a different set of years as a basis for the quota limitation of the Territory of Hawaii was stated in an official press release as follows:

> The acceptance of the period 1931–1933 for all areas would involve a disproportionate reduction from the current level of production as between Hawaii on the one hand and Puerto Rico and the Philippines on the other. This is due to the circumstance that while Hawaiian production has been relatively steady for several years, the development of new production

technique in Puerto Rico and the Philippines has resulted in a marked increase in sugar yields during the last three years.[1]

In other words, the Hawaiian Islands, because their production has been stimulated by free entry into the United States over a longer period of time, had expanded their output prior to the rapid expansion of Puerto Rico and the Philippine Islands. Consequently, the use of "past experience" as the basis of allocation of the quota was certain to bring a heavier burden of restriction, as measured from current output, upon Puerto Rico and the Philippines than upon Hawaii. The use by the Secretary of a different set of years as representative of this "past experience" was to relieve slightly the degree of this burden at the expense of Hawaii. The following table discloses the percentage reduction entailed (from the estimated crop of 1933–1934) by the adoption of one formula as contrasted with the other:

REDUCTION FROM 1933–1934 CROP *IF*

	1931, 1932, 1933 Were Used for All Areas	*1931, 1932, 1933 Were Used for Philippines and Puerto Rico, and 1930, 1931, 1932 for Hawaii*
Hawaii	6.3% decrease	10.9% decrease
Puerto Rico	19.2% "	18.1% "
Philippines	30.6% "	29.8% "

The estimated amount of sugar "lost" by the Hawaiians, about 47,000 tons, arising from the Secretary's use of base years differing from those for the other areas, was not substantial (about 4½%) in terms of Hawaiian production. The objection lay not so much in the business effects of the Secretary's decision as it did in the use of a quota formula under which Hawaii would be treated differently from the continental areas as well as from Puerto Rico and the Philippines. Following the Secretary's decision, the Hawaiian producers sought (August 20, 1933) to prevent

[1] A.A.A. press release, May 31, 1934.

the enforcement of the provisions of the Sugar Act with respect to their territory. In the Supreme Court of the District of Columbia [2] the Act was attacked on all counts.[3] The scheme, it was argued, was unconstitutional in that it deprived the complainants of their property without due process of law, and delegated legislative powers to the Secretary without providing a definite rule for the application of the powers so delegated. The Secretary, it was contended, in fixing the quota for Hawaii, had acted arbitrarily and unreasonably. On October 22, 1933, the Court ruled that the Act was constitutional in its entirety and that Hawaii had not been discriminated against by Congress or by the Secretary.

After the decision of the Lower Court, and before consideration of the case before the United States Circuit Court of Appeal, a tentative agreement between the Secretary of Agriculture and the Hawaiian planters was arrived at (December 24, 1934) providing for the development of a production adjustment contract under which benefit payments would be made to them.[4] After a public hearing in Honolulu, the contract was drafted in final form by the government and the industry. Questions regarding quotas and payments which had not been answered by Federal legislation were settled by means of Federal contract. The Hawaiian interests agreed to abide by all the provisions of the Sugar Act, including those respecting the shipment of sugar into the United States. In addition, they agreed to limit their production of sugar to meet their marketing quota, plus an amount sufficient for local consumption and for a reserve. In turn, the government was to make benefit payments to the producers in the area.

[2] Not to be confused with the Supreme Court of the United States.

[3] In the Supreme Court of the District of Columbia, in Equity #57587, *Ewa Plantation Company* v. *Henry A. Wallace, Secretary of Agriculture of the United States.*

[4] A.A.A. press release of that date reproduces the agreement in full.

A difficult question arising in the development of the contract was to determine the amount of these payments. Should they be based on "fair exchange value"? Should they be greater or less than the payments to producers in the Philippines and Puerto Rico? Approximately $9,000,000 per annum was to be collected upon the sugar produced in Hawaii, and in accordance with the provisions of the Act these taxes were to be set aside for the "use" of that area. Congress had not stated whether all or any part of this money was to be paid to Hawaiian producers; such funds might be used to finance programs or plans for the "general benefit of agriculture," e.g., plant disease eradication, soil surveys, or rural resettlement. Congress had given the Secretary an enormous discretion in the matter. How should he exercise it?

At that time the facts confronting the Secretary were as follows. The Hawaiians, unlike the continental producers, had received a quota calling for a positive decrease of approximately 100,000 tons of sugar (over 10%) in their current level of marketings. They were, in this respect, in a position similar to that of the producers in Florida, Puerto Rico, and the Philippines. The Sugar Act called for a sacrifice to be made in the volume of their business. Secondly, the Secretary had entered into contracts with continental producers of sugar cane and sugar beets calling for substantial direct payments. It was correctly argued that the Secretary of Agriculture could not with equity make substantial payments on cane to Louisiana producers without making some payment to the Hawaiian producers. And, lastly, the agricultural and labor situation in Hawaii was relatively satisfactory.[5] Hence, there was no pressing

[5] The island's second industry, the production of pineapples, had experienced improvement largely due to a recovery in general business conditions throughout the United States, their natural market for the product. The unemployment problem was well in hand; only 6% of

need, as was to be the case in Puerto Rico, for the immediate expenditure of processing tax funds for the relief or rehabilitation of the rural population. It was concluded that approximately 10% (or about $2,700,000) of the total processing tax on Hawaiian sugar would be adequate to cover expenditures for research and developmental projects for "general" agricultural benefit.[6] In view of these conditions, the production control contract provided[7] that the producers in Hawaii, who entered into such contract with the Secretary for the reduction of their output and a limitation of their shipments to the United States, should receive a bounty of 90% of the processing tax of $10 a ton collected on Hawaiian sugar each year (approximately $8,000,000). By this contract, the Hawaiians not only received a bonus per ton of sugar much smaller than that paid domestic producers of beets or cane, but also experienced an actual reduction in marketings; continental producers felt no reduction, merely a limitation on expansion. Although our traditional policy of colonial equality respecting sugar had been changed, the Sugar Act was far from being inequitable to the Hawaiians. The enhanced price of sugar arising from the quota system, in conjunction with her low cost of production, meant that her industry remained highly profitable.

The administration of the Hawaiian benefit contracts was accomplished with little difficulty. Production of sugar cane in Hawaii is based upon a fully developed plantation system. The 39 plantations in Hawaii process all the

the population (overwhelmingly agricultural) was reported as being on public relief as contrasted with 16% in the mainland (December, 1934).

[6] This was the recommendation of a committee which had been established for the purpose of developing agricultural projects in this regard. The committee was composed of the Governor of the Hawaiian Islands, the President of the Hawaiian University, a representative of the Secretary, and a representative of the agricultural interests of the Islands.

[7] See A.A.A. press release, March 30, 1935, for a full statement of the provisions of the benefit contract.

sugar cane raised upon the island and grow on their own lands about 90% of the cane so processed, the remaining 10% being grown by about 4,000 small planters known as "pali" planters most of whom work part time in the cane fields as laborers for the plantations. This concentration of the industry is further intensified in that six "agencies" in Honolulu control the production, financing, and sales of the plantations. With their cooperation the benefit contract was developed rapidly and the tasks of administration presented a minimum of difficulty. This simplicity is the antithesis of the complex situation in Puerto Rico where the government encountered great difficulty in making contracts with 7,500 small and unorganized producers. In Hawaii the plantations, under the supervision of a representative of the Secretary in Hawaii, shouldered a large part of the administrative burden and the intricate details of making production allotments to "pali" planters were worked out by the members of the industry themselves. Thus, a well-knit industry under effective leadership attained a maximum of "self-regulation" under government guidance.

Not only was the Secretary able to delegate, under proper supervision, the making of production allotments; he was also relieved of the responsibility of dividing Hawaii's marketing quota among her 39 processors. The benefit contract provided that the division of the marketing quota, the division of the production allotments, and consequently the division of the benefits to be paid, was to be arrived at by the 39 processors themselves through industrial agreement. A strongly organized industry which had been directed and controlled since 1892 by an agricultural organization, the Hawaiian Sugar Planters Association, acting under a clearly drawn contract with the Secretary of Agriculture, was able to work out successfully

the intricate details of a production adjustment program in an area 6,000 miles from Washington.

Along with the other areas, the position of the industry in Hawaii was altered with the invalidation of the Agricultural Adjustment Act. The court decision nullified her production contract and the sugar situation in the Islands is again in a state of uncertainty. The principal sugar bills introduced in Congress in the spring of 1936 following the court decision (the so-called Costigan and Vandenberg Bills) differed on our sugar policy toward Hawaii. The Costigan Bill,[8] in substance a restatement of the major provisions of the old sugar plan, proposed a fixed marketing quota for Hawaii equal to that which had previously been set by the Secretary. The payment provision of the bill, divorced from agricultural control, provided that the Secretary should set the amount for all producers, continental and insular, but that in no case were payments to be greater than $10 per ton of sugar. Whether or not the payments to Hawaii should be made equal to those of the continental United States would be left entirely to the discretion of the Secretary. The bill did not indicate whether absolute equality of treatment should prevail or relative equality of treatment, that is, whether payments should be made in accordance with the differences in costs between Hawaii and the continent.

The Vandenberg Bill, on the other hand, proposed definitely that producers in Hawaii be treated differently from those on the continent. This difference was embodied in the provision that no quota restriction should be placed upon the continental producers but that such restriction should be placed upon producers in the three insular areas, Cuba, and other foreign countries.[9] If such a measure

[8] S. 4413, Title III, Sec. 202, 74th Congress, Second Session.

[9] The burden of this restriction was to be borne in the same ratio as under the original Jones-Costigan Amendment.

were adopted, it would not be surprising to find the Hawaiian industry again appealing to the courts for an interpretation of their constitutional rights on the grounds that a marketing restriction upon them, with no restriction upon domestic producers, would be tantamount to the assisting of one group of economic producers under the Constitution at the expense of another.

Congress, in adjourning without taking definite action on either of these bills, postponed the sugar question to 1937. When it is again discussed, differences of opinion will be heard over Hawaii's role in the United States sugar economy. If a quota system is permanently maintained, there will be a question as to the relative treatment of Hawaiian producers and those on the continent; if direct payments are to be made in the form of a subsidy or bonus, there will be a question as to how these payments shall compare, in amount, with those made to continental producers. It is clear that if Congress delegates the responsibility of determining payments to an administrative official, it will have shifted its responsibilities, not only in connection with the specific burdens to be placed upon the Federal Treasury, but also in connection with the territorial policy of the United States. The Hawaiian problem is largely that of sugar. To permit an administrative official to determine the volume of sugar marketings and the amount of the Federal bounty is tantamount to permitting him to influence the affairs of the whole Territory and its relationship to the United States. In any event, the plantation owners will continue to profit handsomely from a sugar protectionism which in 1936 reached its sixtieth year.

PUERTO RICO

The circumstances surrounding Puerto Rico are more difficult to appraise than those in any other area producing

sugar for the United States market. This is due primarily to the very dense population of the island and the low per capita income, and to some extent to its historical background which has produced an economic structure different from that in the United States. Anyone interested in the affairs of this small island in the West Indies, about three-quarters of the size of Connecticut, encounters a maze of conflicting opinion on the causes of its political and economic difficulties, and endless suggestions as to what should be done about them. In sifting the information and opinion regarding this beautiful island, it is apparent that easy generalizations and simple solutions must be avoided. And Puerto Rico's future, like that of the Philippines, is dependent in part upon the development of a sound and consistent colonial policy rather than one which vacillates between general neglect, on the one hand, and sporadic interest in times of emergency, on the other.

It seems reasonably clear that the tariff policy of the United States did "protect" the economic life of the great mass of the people, but not to the extent of raising the standard of living to levels commonly prevailing in agricultural United States. The direct result of free entry for Puerto Rican products, for example, sugar, tobacco, and fruits, was to stimulate their export to the United States. In the case of sugar, there was a growth in production from approximately 60,000 tons to over 1,000,000 tons (1898–1934) accompanied by expansion in the plantation economy. Puerto Rico, under the American flag, like Hawaii, became more dependent upon a specialized economic pursuit. Subsequently, it has experienced the marked economic advantages, as well as some of the social disadvantages, of agricultural specialization.

The duty-free entry of sugar into the mainland directed the activity of this agricultural community toward the ex-

pansion of this most lucrative crop, and relatively less emphasis was placed upon the production of coffee and other "small farmer" crops. Concurrently a tremendous growth of population took place, from 953,243 in 1899 to about 1,800,000 in 1936, an advance far exceeding that of any other island in the West Indies.[10] It was attributable partly to an effective campaign, emanating within the island and from Washington, to lower the death rate. This large agricultural population, with a density per mile comparable to that of Japan and India, has tended to keep its standard of living, in comparison with that of the other American sugar producing areas, at a low level. Even though the level of life is a higher one than prevailed at the time of the American occupation, it is reported by the Brookings Institution, and it is apparent to any visitor, that the economic condition of the masses, although better than those of other islands in the West Indies, still remains distinctly unsatisfactory.[11]

It needs to be stressed that the poverty of the Puerto Rican masses did not come about as a result of the depression in sugar. On the contrary, economic conditions in Puerto Rico were aggravated by the effects of the devastating hurricane of 1928 which ruined the coffee crop and seriously retarded the important tobacco and fruit industries. In 1932 a hurricane again struck the island and increased its poverty. By this time world sugar prices were at record low levels. But fortunately for the islanders, the drop in their sugar price was not as severe, due to their full tariff protection in the United States market, as that suffered by their neighbors in Santo Domingo and in Cuba

[10] For example, it is reported that between the period 1899 and 1928 the population of Puerto Rico increased by approximately 53%, whereas that of the British West Indies increased by 20%. *Porto Rico and Its Problems,* The Brookings Institution, Washington, D. C., 1930, Introduction, page xxv.

[11] *Ibid.,* page xix.

who sold in the unprotected world market. Furthermore, the aggressive sugar industry bolstered insular income and employment by augmenting its production. Between 1927–1928 and 1933–1934, largely due to increased efficiency in field and factory, their crop rose in volume by about 50%. Unlike other islands in the world seriously affected by the sugar depression, such as Cuba and Java, Puerto Rico had the advantage of a protected price and, at the same time, a market for her increasing supplies. Even with these advantages, however, her unemployed could not be absorbed by the expanding sugar industry and the expenditure of nearly $20,000,000 from Federal relief funds was necessary to keep the people of this densely populated area from suffering and deprivation.[12]

It was not until the acute crisis following the tropical storm of 1932 had brought impending starvation to the island that our careless colonial policy was to be reexamined. It became apparent to the Administration that Puerto Rico's market quota, 803,000 tons of sugar, checking the future growth of its most important industry and bringing a reduction in output of about 20%, would mean serious hardship to the island. This readjustment of production, at least twice as great as that required of prosperous Hawaii, would aggravate the desperate economic condition of a weakened and impoverished people. The basic weaknesses of her economy had been aggravated by

[12] Conditions of relief in our three leading offshore territories were reported as follows (1933 through 1935):

	Percentage of Population on Relief (maximum month)	*Amount of Federal Obligation Incurred for Relief*
Alaska	8%	$ 343,966
Hawaii	7%	4,739,112
Puerto Rico	42%	19,969,688

Source: *Monthly Report of the Federal Emergency Relief Administration*, December 1 through December 31, 1935, Washington, D. C., 1936, pages 86–94.

the ravages of hurricanes, and it was clear that her employment problems would become more acute with the retrenchment in the rapidly growing sugar industry. In light of these requirements, the Administration decided that the processing taxes collected upon Puerto Rican sugar should be used not only for the purpose of compensating sugar cane producers for production adjustment, but for the partial financing of a program for general rural relief. Consequently, the Sugar Act was drafted with the provision that the Secretary, with the approval of the President, could use part of the processing taxes collected upon the sugar of the insular areas—in the case of Puerto Rico approximately $8,000,000 a year—for the general benefit of the island.[13]

In the summer of 1934, a committee of island leaders was chosen by the Secretary of Agriculture and it was

> . . . specifically charged with the development of the application of the terms of the Jones-Costigan Sugar Act to the island and also was asked to develop a plan that would result in a substantial increase in employment and purchasing power for the people of the island.[14]

From the time this committee was established there were developed two separate government programs for Puerto Rico, one for the readjustment of sugar production to conform to the quota system and one for the "general rehabilitation" of the island, the latter afterwards being commonly referred to as the Chardon Plan. The problem of insular unemployment, as well as that of unbalanced sugar production, was to be dealt with.

The program for the control of sugar production was promptly set into motion as the rapid maturing of the 1935

[13] As matters worked out, processing tax funds were not available for this purpose, but W.P.A. funds in much larger amounts were assigned for rural rehabilitation.

[14] A.A.A. press release, June 8, 1934.

cane crop made immediate action imperative. It was estimated that this crop would produce 1,148,000 tons of sugar, 285,000 tons more than the amount required to fill the mainland quota plus the needs of local consumption. In addition to this excess of sugar in the field, there was a "carryover" of actual sugar from the 1934 crop, that is, a surplus in excess of the 1934 marketing quota of about 228,000 tons, bringing the total sugar surplus (in field and warehouse) to 513,000 tons. It was planned to remove this surplus in two years, with most of the reduction taking place in the first year. Consequently, the production adjustment contracts provided (1) that producers should limit the harvesting of their prospective (1934–1935) cane crop so as to produce 780,000 tons of sugar rather than 1,148,000 tons, and (2) that for the second year they should limit their plantings and harvestings of cane to a sugar crop of 888,000 tons.[15] The first-year reduction of over 3,060,670 tons of cane would bring actual destruction of a valuable food commodity unless alternative uses could be found for it. Happily the necessity for destruction was avoided by converting about a third of the surplus cane into black strap molasses and syrups, and "carrying over" the remainder of the uncut cane until the next year's crop, when it was converted into sugar.[16]

It is only natural to ask: How could the Federal Administration, acutely sensitive to the poverty of Puerto Rico, increase that poverty by curtailing output and employment? Was this not "scarcity economics" carried to its extreme? The answer lies in the fact that Puerto Rico, as one producing area for the mainland market, had to make her contribution to the readjustment of the American sugar "system" in order to receive eventually sizeable

[15] This was later raised to 926,000 tons to give Puerto Rico her share of increased consumption in the United States market.

[16] *Agricultural Adjustment, 1933 to 1935,* page 211.

benefits from the increase in sugar prices under the new program. A blind protectionism had stimulated production in this and other areas year after year, bringing lower prices everywhere and acute distress in Cuba.

In the development of the production contract, the question arose as to the amount which should be paid to producers for restricting their 1935 cane production by approximately 3,060,670 tons. Should "fair exchange value" be assured, as in the case of continental producers? Should the market value of the surplus cane, not converted into sugar, be paid? Should compensation be limited to the cost of cane in the field? What should be the payments in 1936 after the drastic reduction of the first year had been accomplished? Congress, as in the case of Hawaii, had not answered these questions and the Secretary was again called upon to direct the expenditure of Federal funds without a clear standard to guide him. As it developed, it was agreed between the Secretary and the producers that the sugar cane not converted into sugar in the year 1934–1935 should be bought by the government at $4 a ton, its approximate market value at that time, a payment totalling about $12,240,000. In making these payments, neither the principle of "fair exchange value" employed in the Louisiana, Florida, and beet contracts, nor that of refunding a major portion of the processing tax money, as in Hawaii, was used. Rather, a different principle was evolved, i.e., that producers in the first emergency year should be compensated for the loss of the market value of the sugar cane which was not converted into sugar.[17]

[17] In addition to these direct monetary payments, however, there were certain incidental benefits to producers which arose out of the inauguration of the so-called "molasses plan" in Puerto Rico. Through the conversion of the surplus cane into molasses, and through the procedure of carrying the remainder over until the next crop year, there was a minimum of disruption in the normal economic processes of the island; and, at the same time, Puerto Rico had made her contribution to the inevitable limitations of production called for by the Jones-Costigan Amendment.

The restriction of production of sugar by contract with the Secretary, although accomplished under greater administrative difficulty than in any other area, was a relatively simple undertaking compared with the task of working out a "reconstruction" program for the general benefit of agriculture. The scope of such a program placed it outside the orbit of the Department of Agriculture, and its development was put in the hands of the newly established Division of Territories and Insular Possessions in the Department of the Interior. Dr. Ernest Gruening, a recognized liberal and anti-imperialist, was appointed head of the Division by the President, and in accepting the appointment he took upon himself the responsibility of carrying out an insular "reconstruction" policy.

This policy called for the creation of the Puerto Rican Reconstruction Administration which was

> To initiate, formulate, administer and supervise a program of approved projects for providing relief and work relief and for increasing employment within Puerto Rico,

and

> to the extent necessary to carry out the provisions of this Executive Order, the Administrator is authorized to acquire, by purchase or by the power of eminent domain, any real property or any interest therein and improve, develop, grant, sell, lease . . . or otherwise dispose of any such property or interest therein.[18]

To date, no specific "plan" has been outlined in detail, but on April 18, 1935, the broad purposes and anticipated expenditures of the Puerto Rican Reconstruction Administration were announced.[19] It was stated that "economic

[18] The Puerto Rican Reconstruction Administration was established by Executive Order No. 7057, May 28, 1935, by virtue of the authority of the Emergency Relief Appropriation Act of 1935.

[19] All quotations are from *The Purposes of the Puerto Rican Reconstruction Administration,* United States Government Printing Office, Washington, D. C., 1936.

and social progress in Puerto Rico" has been impeded by the "disastrous effects of tropical storms, unstable agricultural conditions, excessive and steadily increasing density of population and widespread unemployment in urban and rural areas, together with absentee concentration of land ownership. . . ." As the island is predominantly agricultural, it was to be expected that the plan for its reconstruction should focus primarily upon improving the conditions of the agrarian masses. Out of the total funds allotted (approximately $35,000,000), over $27,000,000 was earmarked for rural rehabilitation, electrification, and reforestation by the P.R.R.A. The heart of the rural rehabilitation plan is to "encourage the return to the rural areas of the farmers and farm workers by restoring the farm lands to them." For this purpose it is reported over 75,000 acres of land are to be acquired, houses are to be built, agricultural equipment is to be purchased, and loans ($4,000,000) are to be made to "resettled" colonos. Part of the land to be obtained is the "marginal sugar lands" taken out of production as a result of the operations of the Sugar Act, part is "good sugar lands," and the remainder is in the coffee, tobacco, and citrus areas.

The wide scope and ambitious character of the Puerto Rican program is apparent from the character of the projects so far formulated. A summary of "the amounts and purposes for which funds allocated to the P.R.R.A. are being expended" is as follows:

Administrative Expense	$ 2,716,015
Slum Clearance and Housing	2,200,000
Rural Electrification	2,727,600
Reforestation and Forestation	994,140
University Buildings	1,422,000
Work Relief Projects	306,740
Rural Rehabilitation	23,651,900
Cement Plant	850,000
	$34,868,395

Clearly, to pass judgment at this time upon the possibility of the success (i.e., the possibility of permanently reducing unemployment) of the Puerto Rican reconstruction plan would be extremely rash. Future uncertainties—hurricane damage, the movement of the prices of sugar, coffee, and tobacco, the cost of imported foods, the amount of direct grants from Congress, the political relation of the island to the United States, the capacity of the administrators of the plan—are all present and make foolhardy any forecast of the success of this ambitious scheme to remove from Federal relief more than 25% of the people of this crowded island. It is sufficient at this juncture to make two points.

Tariff protection alone, extended to Puerto Rico for 34 years, has failed to solve the difficult question: How can the island's standard of living be further raised and made more consonant with that of the United States? Each year the United States consumer has contributed indirectly from $20,000,000 to $30,000,000 to protect the island's major agricultural pursuit, sugar, and by 1935, as a reflection on our slipshod colonial policy, over $50,000,000 has been (or is to be) hurriedly thrown into the pot (relief, reconstruction funds, and sugar payments) as additional direct payments to help the island out of its difficulties.

Secondly, it appears that the rehabilitation plan provides for resettlement of lands now being cultivated as well as lands not now cultivated. It is proposed to purchase large holdings and to divide them up into smaller holdings on a family-size basis. While there is much that can be done in this connection, particularly in subsistence farming, the question immediately arises as to whether or not productivity of the land can be increased by the mere fact that it has a new owner. Greater productivity per acre of an enlarged acreage is necessary for greater production.

While the island has made rapid strides in increasing its productivity per acre in all of its principal crops, there is much yet to be done, particularly with respect to certain food crops. It is doubtful if this can be accomplished through changing ownership alone. The Brookings Institution, probably unduly pessimistic, has pointed its finger at the fundamental weakness of the island in stating that

> . . . The enduring economic problem in Porto Rico, as elsewhere, is to determine and secure the best balance between resources and productive equipment on the one hand and population to be supported on the other. In Porto Rico the best balance does not now exist, for population has outrun the capacity of the present economic resources and organization to furnish full employment and satisfactory living conditions.[20]

The difficult Puerto Rican problem, in both its economic and its political aspects, has been further clouded by two events in the year 1936. The first, and less important, was the invalidation of the Agricultural Adjustment Act. The Supreme Court decision came after the accomplishment of the drastic readjustment in production made necessary by the abnormally large crop of 1935. The decision, furthermore, did not destroy the quota system, and the price of sugar has remained high enough to offset largely the reduction in volume.[21]

Transcending the court decision in long-run importance was the renewal of the highly controversial question of political freedom for Puerto Rico. In the spring of 1936 a bill was introduced (but not voted upon by the Senate) by Senator Tydings, Chairman of the Senate Committee

[20] *Porto Rico and Its Problems,* The Brookings Institution, p. xxv.

[21] The amount of 35 cents a ton to be paid producers for 1936 will be paid upon approximately 7,000,000 tons of cane, totalling $2,450,000. Payments will be made under the special appropriations of Congress for the purpose of discharging the moral obligation to the producers holding contracts with the Secretary.

of Territories and Insular Affairs, under which the Puerto Ricans were to be given the opportunity in a special election in November, 1937, to decide whether they wished to be sovereign and independent or to remain under the American flag.[22] Under this bill, "freedom," if elected, would not come at once, but Puerto Rico would enjoy a Commonwealth status for four years during which time American control and jurisdiction would gradually be withdrawn. Likewise, American tariff protection would not be withdrawn at once but our duties would be put into effect on a gradually increasing scale during this four-year interim. Thus the Puerto Rican producers could accustom themselves by degrees to the loss of their tariff protection. As was to be expected, this plan provoked violent opposition from all camps in the island except the extreme nationalists who would have independence "at any price." The great majority of the islanders argued with vehemence that the complete cessation of American tariff protection, relief, and unemployment aids at the end of four years would impoverish, if not destroy, the economic life of the island. The Puerto Rican economy, based largely on sugar, which in turn has rested on a protective policy for 33 years, cannot withstand a complete withdrawal of Federal assistance. All parties in Washington and San Juan realize this fact, and it will be reiterated in Congress on every occasion that Puerto Rico's future comes under discussion.

It is reasonably clear that the Administration, which proposed that the island make its own decision with respect to independence, did not intend possible independence to bring about a complete withdrawal of tariff protection. The Tydings Bill (Sec. 117) anticipated[23] presumably that

[22] S. 4529, 74th Congress, Second Session, "To provide for a referendum in Puerto Rico on the question of independence . . . ," February 24, 1936.

[23] The provisions of the Puerto Rico Bill regarding the drafting of new trade relations with the United States are practically identical with those of the Philippine Independence Act of 1934.

prior to complete independence (when, as, and if accomplished), a trade agreement between the island and the United States would be developed which would grant tariff and quota protection for Puerto Rican sugar and other crops in exchange for tariff preferences to United States commodities imported into Puerto Rico. The development of such a treaty, would forestall the collapse of the Puerto Rican economic structure. Of course, such a trade agreement, the core of which would be sugar, could not be formulated without raising the issue as to what kind of sugar policy is to be permanently adopted by the United States.

If independence is not elected and the political cry of the minority for "freedom" is met by giving the Puerto Ricans a larger degree of autonomy over their "local affairs," including the selection of a governor of their own choosing, the major problems will still remain. How much sugar should be allotted under a quota system to Puerto Rico as contrasted with the other insular areas and Cuba? What direct payments, if any, should be made?

The Puerto Rican question will not be solved as long as the economic and social stability of the island hangs on the receipt from the Federal government of substantial sums for rural and urban relief. If the Herculean task of rehabilitating Puerto Rico with the expenditure of over $35,000,000 is a complete (or even partial) failure, which is not unthinkable in terms of the difficulties involved, the continued expenditure for productive purposes of all kinds of from $5,000,000 to $10,000,000 a year may be necessary in order to keep the marginal element of the ever-increasing population from privation.

Although American consumers have, under our traditional policy, paid a protection subsidy of millions of dollars to Puerto Rico for her sugar, nevertheless that tariff has

failed to make the island entirely self-supporting. The livelihood of these people was precarious long before the sugar depression. With hurricane damage, a destroyed coffee industry, and falling sugar prices conditions became desperate, and it was fitting as well as necessary that some program to offset insular unemployment be undertaken along with the adjustment of sugar production. Of course the cost of the scheme for "reconstruction," like the cost of sustaining the sugar industry, has been met by the consumer and taxpayer in the United States. If the "reconstruction" program fails, it will be an expensive monument to the efforts of the Administration to modify our laissez-faire Puerto Rican policy which has been slipshod and careless from the beginning. If the ambitious program is a success, it will be a memorial to its proponents who have sprung largely from the soil of Puerto Rico itself. In either case, the sugar industry will remain the economic backbone of the island, from which a complete withdrawal of protection is unthinkable.

THE PHILIPPINE ISLANDS

The best example of the vacillation in our colonial policy is found in the Philippine Islands, and the Sugar Act is only one step toward the establishment of new economic and political relations with this Asiatic archipelago supporting an agricultural population of over 14,000,000 people. Although the present Administration has made an attempt to distill some finality out of past colonial indecision, the troublesome questions which emerged from the "battle of Manila Bay" remain unanswered. Shall the Philippine Islands be given political freedom and shall that freedom, if given, be coupled with a withdrawal of our free trade policy? The first question has been answered in the affirmative; an answer to the second question has been post-

poned. In the Philippines, as in Puerto Rico, our indecision blurs the outlook for the future.

When, in the summer of 1934, plans were being formulated by the A.A.A. for the administration of the Sugar Act in the Philippine Islands, there were two outstanding considerations: (1) Congress, a few months previous, had passed an Act providing for their ultimate complete independence;[24] (2) the rapid development of their sugar industry had culminated in 1934 in a gigantic production of over 1,500,000 tons of sugar, roughly 500,000 tons over the basic marketing quota. With this swollen output, the Philippines faced a readjustment in production strikingly larger than that necessary in the other insular areas, Hawaii and Puerto Rico.

In passing the Philippine Independence Act, Congress provided that the people of these islands were to receive the complete political autonomy which they had demanded sporadically since our burst of imperialism in 1898. On the economic side, the Act appeared to have imparted some degree of finality to an American trade policy which had vacillated for over 35 years. Immediately following the Spanish-American War Philippine goods were imported into the United States only after payment of duty. In 1902, however, Congress stimulated Philippine exports, particularly of sugar, by providing a 25% duty-reduction on articles grown or produced in the Philippine Islands. In 1909 a reciprocal trade arrangement was established by the Congress of the United States, and free entry of Philippine commodities was allowed under the Payne-Aldrich Tariff of that year. An exception to this general arrangement was that the duty-free importations of sugar[25] were limited

[24] Public—No. 127—73rd Congress, H. R. 8573, approved March 24, 1934. The Act was accepted by the Philippine Legislature a few days before the Sugar Act was signed by the President.

[25] Limitations were also placed upon tobacco, including cigars.

(nominally) to 300,000 tons. This quantitative limitation was completely eliminated by the Tariff of 1913 under the Democratic Administration of Woodrow Wilson. For 20 years (1913–1933) unlimited amounts of sugar had entered duty free; our equalitarian colonial policy with respect to sugar had been applied at last to the Philippine Islands as it had been previously to Hawaii and Puerto Rico. These islands, 6,000 miles from San Francisco, received the same sugar protection as Louisiana, Colorado, or any other state.

In 1934, under the Independence Act, this colonial trade policy was reversed. It was provided that after the establishment of the Philippine Commonwealth in November, 1935, and before the achievement of complete independence 10 years later, there should be a quantitative limit upon the *duty-free* importation of sugar into the United States (about 972,000 short tons raw value). Any excess importation was to pay the full duty rate applicable at that time to foreign countries. However, this duty-free entrance of a limited amount of sugar was drastically qualified by the provision that after the first five years of the Commonwealth, that is, after 1940, a graduated export tax [26]—ranging from 5% of the full duty in the sixth year (0.09375 cents) to 25% of the full duty (0.46875 cents) in the tenth year [27]—should be levied on *all* Philippine sugar shipped to the United States, and, with complete political independence in 1945, the full duty would go into effect.

In other words, Congress told the Filipinos in March, 1934, that although they were to be politically free, a quantitative limit was to be imposed immediately on the amount

[26] This tax is to be levied and collected by the Philippine government at the port of export. The funds so collected are to be applied solely to the payment of the principal and interest on the bonded indebtedness of the Philippine Islands. These bonds are held predominantly by investors in the United States.

[27] This is based on the assumption that the present full duty, 1.875 cents per pound (1936), remains in force.

of duty-free entry of their major crop, sugar, that after five years the duty-free privilege was to be offset partially by an export tax, and that in ten years duty-free entry was to be completely withdrawn. In the Philippines, then, unlike Hawaii and Puerto Rico, the producers of sugar not only faced a reduction of the size of their industry as called for by the quota system under the Sugar Act, but a reduction as called for by the terms of the Independence Act. A limitation upon the amount of Philippine sugar which could be entered into the United States duty-free in 1935 and thereafter was tantamount, under conditions of a depressed world price, to a restriction of marketings to the islands' one market, the United States.

Thus the cycle of colonial policy is to be completed. Immediately after the Spanish War, the Philippines had received no tariff concessions from the United States; by 1909 they were given free entry of their goods into the United States, and vice versa; by 1935 they had a quantitative limit upon free entry, and by 1945 they are to be again a "foreign country" both politically and economically.

It is impossible to appraise the exact effect of the granting of duty-free entry (1909) to the Philippines upon their sugar production. The record shows, however, that the stimulation of output, resulting from the receipt of an American tariff protection equal to that afforded high-cost domestic producers, did not operate with equal intensity through the entire "free sugar" period. In the eight years following 1909 little rise in the production was noted; in the five years following the post-war depression of 1920 there was a definite rise; and by 1929 over 800,000 tons of sugar were being produced, an advance of over 300% from the pre-war years. This growth marked the Philippine Islands as the most rapidly growing sugar area producing for the American market. After 1929, however, this ex-

pansion, which had previously been vigorous, took on a mushroom character and by the year 1933–1934, the last crop uncontrolled by government action was estimated at 1,578,000 tons, or double the production of the preceding six years.[28] At a time (1929–1933) when sugar was flooding the world's markets, bringing a disastrous drop in price, the Philippine crop had doubled under our tariff protection. At a time when Cuba, Java, and other exporting countries were struggling to shrink their output to world requirements, the stimulation of our tariff protection made inevitable the expansion in Philippine output. As has been shown in Chapter V, this expansion took place mainly through a modernization of plant, the introduction of new cane varieties, and the intensification of cultivation, rather than through an increase in acreage.

Under the Sugar Act this stimulation of production was to be halted; our sugar policy, which had unduly encouraged expansion through the tariff, was to restrict it "artificially" through quota control. The mistakes in the past were expensive to rectify; sugar cane was to be destroyed and a drain would be placed on the Federal purse. The bumper crop of 1934, 1,578,000 tons, had been harvested before the passage of the Sugar Act. However, in the first quota year the marketings of sugar were limited to 1,015,000 tons. There were, after adjustment for local consumption, about 451,000 tons of surplus Philippine sugar. The already planted and growing cane crop for the year 1935 was approximately equal to the record-breaking crop of 1934. A restriction on harvesting in 1935 would involve not only the reduction of that crop to the level of the 1935 marketing quota, approximately 1,000,000 tons, but reduction to an even lower level in order to absorb the

[28] The rapidity of this rate of growth in the six years exceeds the records set in Cuba during the World War and in Java during the 1920's.

1934 surplus. Making full allowance for local consumption and the creation of reserves, the 1935 crop of about 1,578,-000 tons was to be reduced to 696,000 tons.

It was obvious that this substantial first-year reduction in the country's leading crop could not be made without serious repercussions. And the situation was further aggravated by the fact that it was impossible, because of technical problems of conversion and transportation, to convert the "surplus" cane of 1935 into molasses as had been done in Puerto Rico. Furthermore, it was difficult to carry over the surplus cane from 1935 to 1936 as had been done in Puerto Rico. As a consequence, the Philippine Islands in 1935 were to pay a high price for their five-year overextension of production. But, unlike Cuba and Java which had been forced, by the pressure of lower world prices and ever-narrowing export markets, to make drastic reductions in their output without assistance from any government purse, the blow of emergency readjustments in the Philippine Islands was softened by the receipt of over $15,000,000 of crop payments under the United States Agricultural Adjustment Act.

This drastic readjustment of sugar production to quota levels was accomplished through benefit contracts which were entered into between the Secretary of Agriculture and over 17,000 individual producers in the many islands of the Philippine archipelago. Under these contracts approximately $2.13 a ton was paid by the Federal government to the producers for destroying the sugar cane, which was actually growing and ready for harvest. In one year thousands of Philippine producers contracted with an unseen and hitherto unknown Secretary of Agriculture to restrict production in order that the surpluses of 1934 and 1935 might be kept within the quota levels established by the Sugar Act and the duty-free quotas set up by the In-

dependence Act. In addition to making the necessary adjustments in 1935, the producers agreed to limit their crop through acreage control and without additional payment to about 985,000 tons in 1936. A crop of that size would be in harmony with their marketing quotas and local consumption.

The Secretary, as we have seen, had developed three types of payment for the three insular areas: remittance of the major portion of the processing tax (90%) in Hawaii, payment of market *value* of the unused cane in Puerto Rico, and payment of the *cost* of the unused cane in the Philippine Islands. Thus, for the year 1935, the Sugar Act demanded the greatest sacrifice from the Philippine producers, both in terms of reduction of production from the current crop (about 33⅓%) and in terms of the amount of money received per ton of sugar cane not converted into sugar. The rapid growth of the industry in the Philippines, its political and economic tie with the United States, and its great distance from the center of government, all contributed to this differential treatment. Such treatment was not, however, unfair or inequitable. The Philippine planters had built up their production with unprecedented rapidity and their sharp readjustment in production was eased by Federal funds. The United States Congress, reversing a colonial policy of 25 years' standing, could not reasonably demand that the Philippines reduce their production over one-third without offering some concrete assistance in the period of transition. The initial strain of a curtailment to about 1,000,000 tons per year was eased by the expenditure of over $15,000,000. The schedule on page 235 summarizes the character of the readjustment of production in the Philippines.

This readjustment in production and disbursement of money could not have been implemented successfully with-

	1934	*1935*	*1936*
Planted crop	1,578,000	1,578,000 (potential)	985,000
Harvested crop (estimated)	1,578,000	697,000	985,000
Export quota for United States	1,005,602	981,958	1,098,738
Contract provisions regarding restriction	Contract not in force	Destruction of cane during January–June, 1935	Restriction of acreage, January–June, 1935
Benefit payments	None	$15,456,615	None

out the cooperation of the insular government. The existence of 18,000 widely scattered producers, the differences in language, the initial absence of a Federal agricultural administrative force in the islands, and the striking innovations occasioned by this scheme for agricultural control, would have prevented, or at least very materially hampered, the carrying out of the reduction program from Washington. The situation was recognized at an early date and, in accordance with the terms of the Sugar Act, the Secretary of Agriculture delegated the division of the marketing quota among the various exporters, processors, and producers to the efficient and resourceful Governor-General of the Philippine Islands, Frank Murphy. Under his direction the Philippine Legislature [29] passed an Act to provide for the

> . . . limitation, regulation, and allocation of sugar produced in the Philippine Islands and for the processing and marketing thereof and for other purposes . . .

which gave power to the Governor-General, through licensing and other devices, to establish allotments to producers, processors, and exporters of sugar available for the United States under its quota system and for local consumption in the Philippine Islands in order

> . . . to harmonize the laws of the Philippine Islands with those of the United States in so far as they affect production,

[29] Tenth Philippine Legislature [No. 4166] H. No. 600, approved by the Governor-General, December 4, 1934.

manufacture and marketing of sugar cane and sugar produced in the Philippine Islands.

At the present time (1936) the production of the Philippine Islands is within the quota limits of the Sugar Act and the nondutiable import quota of the Independence Act. The current price of raw sugar, even with a restricted output, is remunerative to the Philippine plantations, as it is to those in Hawaii and Puerto Rico. The operation of the Sugar Act has left the islands, in contrast with other geographically comparable areas like Cuba or Java, in a prosperous position. Unfortunately, however, although the producers of the Philippines look with favor upon the present situation, they look with great apprehension into the future. They fear, and with good reason, that the complete withdrawal of American tariff protection in 1945 will result in a reduction of the total annual income for sugar which will disrupt the economic and social life of the islands. Of course, the extent and character of a possible economic repercussion 10 years hence cannot be forecast except in the broadest fashion. In all probability there would be a reduction in the *volume* of sugar salable in the United States market. Assuming, however, a volume of sugar exports comparable to that now prevailing as well as prevailing prices and rates of duty, the minimum reduction in the value of the Philippine sugar sold in the American market would be about one-half, or approximately $37,500,000. This reduction in crop value will make a serious dent in all Philippine exports to the United States, now around $100,000,000 a year. It will narrow the taxing base in the islands and will tend to lower the rates of pay for agricultural labor. Finally, an anomalous condition will exist wherein Cuba will receive a higher sugar price in the United States than will the Philippines; Cuba will receive a tariff preferential on her sugar exported to the United States and,

simultaneously, the Philippines will be paying the full duty applicable to foreign countries, e.g., Santo Domingo or Peru. This will constitute a complete reversal of the commercial policy we adopted at the close of the Spanish-American War, which gave free sugar to the Filipinos and limited preference to the Cubans.

The probable economic adversity to the Philippines arising from the Independence Act was recognized by Congress. The Act provides (Section 13) that, at least one year before political independence, a conference be held between representatives of the Philippine Islands and the United States for the purpose of

> . . . formulating recommendations [to Congress] as to the future trade relations between the government of the United States and the independent government of the Philippine Islands. . . .

Thus, Congress postponed for 9 years a definite delineation of our future economic ties to the Philippine Islands. But such a lengthy postponement will raise serious uncertainties which are certain to work against a successful transition of the Philippine people from a colonial status to one of complete political independence. In view of this, the executive branch of the Federal government is now working upon the formulation of a permanent trade policy with the Philippines, to become operative before 1945.[80] Of course, the essence of such a commercial policy will be sugar. Whatever the final arrangement may be between the mainland and the Commonwealth, the following difficult problems must be considered.

(1) Should a marketing quota on Philippine sugar be retained as a part of a permanent trade policy? If so, should the quota be above or below the amount fixed in the

[80] Such policy may take the form of an amendment to the Independence Act of 1934 or of a Reciprocal Trade Agreement.

Sugar Act? Should it be increased with the inevitable enlargement of domestic consumption or should it be made static?

(2) Should such quota sugar be admitted duty-free, as is the case at the present time, or should some duty be paid upon it, as, for example, is paid by the Cubans at the present time? If a duty is placed on Philippine sugar, what should be the determining factors in establishing its specific rate? Should the rate be fixed or should it vary with movements in sugar prices and costs of production? If the price of sugar in the United States is enhanced by the operation of the quota system, in order to protect indirectly the income of high-cost domestic sugar producers, should a duty on sugar be adjusted in order that possible excessive gains to the Philippine producers may be diverted into the United States Treasury?

These two leading questions—How much sugar? How much duty?—must be met. They cannot be answered without an appraisal of innumerable factors, among which the most important are the interests of labor and capital in the Philippine sugar industry, the national economic importance of maintaining our export trade to the Philippines at approximately current levels, the future position of other sugar producing areas, including Cuba, the price of sugar, and, finally, the outlay by the American consumer in aiding the Philippine industry. It is clear that the Philippine sugar problem is not solved by the Independence Act; its solution is merely postponed. A prolonged postponement will be damaging to commercial confidence and a more definitive agreement should be reached in the near future. The nature of the commercial relation will depend largely upon the developments in our sugar policy over the next few years. The fact that much preliminary work and discussion has already been carried

on by the Administration and by the representatives of the Philippine Commonwealth gives promise, at least, of an early attempt to solve a difficult problem in national and colonial economic management before that problem becomes aggravated by the passage of time. This effort toward a solution is in striking contrast to our former Philippine policy, a policy which left undisciplined the forces of private enterprise. The inevitable result, an overexpansion in sugar, called for a restriction of its industry, drastic and dramatic, at a substantial cost to the American Treasury and to the insular people. A crystallization of policy toward the Philippines in the 1920's calling for a direct channeling of economic activity, in harmony with the requirements of all producing areas including Cuba, would have doubtless made unnecessary an enormous destruction of property in these islands in 1935.

CHAPTER XIV

CUBA

In 1933 a new Administration was inaugurated in the United States at a time when economic conditions were at one of the lowest points in our nation's history. In the same year Cuba saw the entrance of a new government under similarly distressing circumstances. But her political change was violent and bloody, President Machado being exiled as the culmination of three years of political strife. These political events arose largely from economic causes. The economics of Cuba, of course, is sugar, and the condition of sugar is largely set by American "policy." The new Administration in Washington was faced with the task of helping the first island of the West Indies in her long fight to regain political order.

The intention to foster stability in Cuba, by means of the Sugar Act and the Reciprocity Agreement of 1934, was publicly announced in the first year of the new Administration. When the President recommended the new sugar policy to Congress, he forecast that, if adopted, it would "contribute to the economic rehabilitation of Cuba," and the Secretary of Agriculture, in explaining the nature of the sugar program, stated that

> It also takes into account the obligations of the United States toward Cuba as implied by the Monroe Doctrine and specified in the Platt Amendment.[1]

[1] See A.A.A. press release, March 16, 1934.

The President's forecast was correct and the obligations as understood by the Secretary were soon recognized and assumed. Cuba has seen the value of her sugar crop rise from the depression low point (1932) of $40,000,000 to over $100,000,000 in 1935, the highest figure since 1929. The United States, not the world, has contributed this increase; our political action, not "natural" economic improvement, has been its backbone. The benefits to Cuba from our new sugar policy have been as great as those received by any other area contributing to the United States market. But, as in the case of Puerto Rico and the Philippines, the future for this island is still clouded and uncertain.

What were the relations of Cuba and the United States before 1933 which made the Administration so sensitive to the Cuban problem? How, specifically, has the sugar plan operated to bring assistance to Cuba since 1933? What of the future? These three questions are before us in this chapter.

CUBAN-AMERICAN RELATIONS BEFORE 1933

There are three ways in which our relations with Cuba differ from those of other foreign countries. It is difficult to define sharply these differences or to make categorical statements as to their relative importance. It is fair to say, however, that (a) the United States has exerted its influence over the political life of Cuba, (b) it has given her economic aid through tariff preferences, and (c) its citizens have dominated her major industries, both through absentee ownership and through financial and managerial control.

Political Ties

Long before 1898, the proximity of Cuba to the southern tip of Florida and its command of the entrance to the Gulf

of Mexico made the political status of this island of keen interest to the United States. Serious consideration was given from time to time to the absorption of the island, pressure coming particularly from the expansionists of the old South.[2] Political absorption, of course, did not take place, but our foreign policy prevented any foreign power (other than Spain) from extending its political control over Cuba. In accordance with the Monroe Doctrine, if she became free of Spain, she would have to be free from all foreign powers. In 1898 the United States went to war for the purpose of assisting Cuba in her fight for "independence," but with the termination of that conflict the United States retained considerable political influence over the new republic. This retention of power came through an Act of Congress and not by Cuban invitation or request. It was embodied by Congress in the Platt Amendment, March, 1909, which among other things, permitted the United States to

> . . . exercise the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property and individual liberty. . . .[3]

At a later date, the Platt Amendment was incorporated in the formal Treaty of Relations between Cuba and the United States, May 22, 1903.[4] Cuba agreed, after pressure had been applied from Washington, not to permit any foreign power to impair her independence or to control any

[2] In addition, between the Civil War and the termination of the century, there were substantial American investments placed in Cuba and by 1895 they were estimated at over $50,000,000. *The Cuban Situation and Our Treaty Relations,* Philip G. Wright, The Brookings Institution, Washington, D. C., 1931, page 20.

[3] This was an amendment to the Army Appropriation Bill of March 2, 1901.

[4] The Permanent Treaty of 1903 was suspended on May 29, 1934, by a new treaty which gave Cuba complete sovereignty, excepting over the naval base at Guantánamo. U.S. Department of State, Treaty Series No. 866, May 31, 1934, Washington, D. C.

portion of her island; she agreed not to contract public debts in excess of her power to meet their interest charges and sinking funds, and she gave the United States the right of military intervention for the preservation of Cuban independence or for purposes of protecting "life, property, and liberty." In short, the Congress of the United States dictated the terms under which our military evacuation would occur and persuaded Cuba to "permit" an indefinite exercise of American political influence. From that date on (1903), America assumed the responsibility of maintaining political order. Subsequent evidence has repeatedly shown that, notwithstanding the volatile character of Cuban "democracy," the real key to her permanent political stability is found in her economic stability which, in turn, is based upon sugar.

The political treaty of 1903 proved to be more than an empty gesture to a new and struggling republic, and military intervention occurred many times under its provisions.[5] The circumstances under which these interventions took place followed a similar pattern. Strife between political parties reached the danger point at the time of an "election." The Cuban army, notoriously closely allied with politics, has failed to maintain "order," and Americans have been invited to intervene by either one or both of the Cuban political parties involved. American capitalists, in the meantime, have joined in the cry for the marines; their property has usually been "in jeopardy."

The extension of American power over the internal political affairs of Cuba took other forms than military intervention. No Cuban government can live permanently without American diplomatic recognition. Our official

[5] *Rights to Protect Citizens in Foreign Countries by Landing Forces*, U.S. Department of State, Washington, D. C., 1934.

recognition adds prestige to the party in power and assists it in maintaining internal order. Again, under the Treaty, Cuba's power to borrow money was subject to the approval of the United States and, consequently, no government in Havana could be financially independent unless it were "acceptable" to the State Department. Through military intervention and the power to give or withhold recognition, therefore, the United States for 32 years held the key to internal peace in Cuba. Having these powers, it could not escape the obligation of acting under them. American capitalists recognized this and poured millions into Cuba, knowing that Washington would act to maintain political stability and guard property. The American dollar followed the American flag, rushing in when it had advance assurance of full protection.

Economic Ties

American statesmen of the Spanish War period recognized the connection between politics and economics. Upon the establishment of the political treaty, they entered into discussions with the Cubans for the promulgation of an economic treaty giving Cuba tariff preferences over other "foreign" countries in the United States market. Tariff preferences meant, overwhelmingly, preferences for Cuban sugar. The reasons for the development of the economic treaty[6] were succinctly stated by Secretary of State Root in his annual report for 1901. A tariff preference, he remarked, should be given not only for the "ordinary considerations of commercial advantage," but for the purpose of meeting "moral obligations to which we committed ourselves when we drove Spain out of Cuba." In addition the Secretary added that

[6] Reciprocity Convention between the United States and Cuba, signed by President T. R. Roosevelt, December 17, 1903.

> . . . there are the weightiest reasons of American public policy pointing in the same direction; for the peace of Cuba is necessary to the peace of the United States and the health of Cuba is necessary to the health of the United States. *The same considerations which led to the war with Spain now require that a commercial arrangement be made under which Cuba can live.* . . .[7] [Italics mine]

Thus the crusading spirit of 1898 was to be extended to sugar. But it was not to be expected in 1903, any more than in 1934, that the drafting of a commercial agreement with Cuba, lowering our duty on her sugar, would go unchallenged by Congressional representatives from the domestic beet area. They argued that the proposal to reduce the tariff on Cuban sugar by 20% under the rates applicable to foreign countries

> . . . constitutes, in essence, an abandonment of the protective principle even though it removes only one-fifth of the duty imposed by the Dingley Law [of 1897] and this abandonment is most unhappy because applied to the pursuit of agriculture in the most conspicuous instance in which specific and manifest protection is given to the farmer and at the moment when the beet industry is not only in its infancy, but in an infancy so lusty and promising as to demonstrate the certainty of a rapid and prodigious growth. . . . The American market for over $100,000,000 worth of sugar annually is rightfully his [the farmer's]. We shall encourage no policy which delays the time when he shall come into his own.[8]

Furthermore, the halls of Congress heard that

> The proposition is to undertake to assure commercial and industrial prosperity in Cuba, a foreign country, and a foreign government. If we undertake it, when and where are we to

[7] As quoted in *The Cuban Situation and Our Treaty Relations,* Philip G. Wright, page 25.

[8] In *Effects of the Cuban Reciprocity Treaty,* U.S. Tariff Commission, 1929, page 425. (As quoted from the Congressional Record, 57th Congress, First Session, page 4324.)

stop? . . . We are asked to extend the fraternal hand to a foreign people on the ground that, having given them liberty we are morally obligated to assure them commercial and industrial prosperity, even at the sacrifice of our own interests. . . . We emphatically deny that we are under any such obligation, morally or otherwise.[9]

However, the position held by Secretary Root was sustained; the western beet farmers were defeated, and the Treaty of Reciprocity was signed and remained in effect until 1934.

Just as the political treaty in 1903 brought America directly into the internal politics of Cuba, so the commercial treaty of the same year tightened the economic lines between the two countries. After 1903 the United States had its finger in the political and economic pie of a colorful but unruly democracy of the subtropics. The treaties of that year had a lasting effect upon our subsequent sugar policy. The question asked at that time by the representatives of the beet farmers: If we undertake it, when are we to stop? has yet to be finally answered. Part of the answer is found in the new Sugar Act, which was honestly based upon the historical facts that the United States in 1903 had acquired obligations to the newest democracy in the new world which it failed to meet in 1933. The circumstances leading up to that dark year for Cuba, although sketched in other chapters, are drawn together at this point.

Growth and Depression in the Industry

In the early years, the effect of granting a tariff preferential of 20% on Cuban sugar was to raise its price received in the American market above the world price by the amount of the preferential, and to reduce United States

[9] *Ibid.*, page 426.

Treasury receipts by about $10,000,000 a year.[10] Beginning around 1910, Cuba was meeting all the demands for foreign sugar in the United States, and she began to export more and more of her sugar to Europe. She now received the same price in both markets. This meant, in turn, that the 20% preferential had not been retained by Cuba, but was passed back to the refiners or consumers in the United States market.[11]

Although the effect of exporting sugar to the world markets was to reduce the price premium which Cuba had enjoyed under the tariff preferential, it did not impede her production for the American market. On the contrary, from 1905, when slightly over 1,233,000 tons (refined basis) were contributed by Cuba to the American market, to 1914, her contribution had increased to 2,063,000 tons. But this did not have an adverse effect upon American producers. Cuba's increased production, as well as the increase in the beet and three insular areas, was absorbed comfortably by the incessant yearly rise in American consumption, on the one hand, and the total displacement of "foreign sugar" from our markets, on the other.

The rapid growth of the Cuban industry in conjunction with the equally rapid growth of the American sugar areas, both insular and continental, pointed inevitably to the overproduction and confusion which appeared in the American sugar system after 1930. The Great War

[10] In this period the yearly importations of sugar were approximately 1,605,000 tons raw value. The 20% duty preference of 0.337 cents per pound amounted to $6.74 per ton. The total $6.74 × 1,605,000 equals slightly over $10,000,000.

[11] The United States Tariff Commission stated in 1929, after making a thorough study of the effect of the granting of the tariff preferential to Cuba, that "none the less, the shift in relative values after Cuba became definitely a large exporter to Europe is too striking not to constitute confirmatory evidence that the Cubans had previously been obtaining a price premium which they lost when their exports materially exceeded the import requirements of the United States." *Effects of the Cuban Reciprocity Treaty*, page 73.

temporarily delayed this impasse. War created a beet sugar deficit in Europe, and a war-time shortage of ocean transport bottoms made it difficult for Asiatic sugar to enter the European markets. The price of sugar in New York and London soared and every effort was made by the Allies to increase production in those areas which had adequate facilities. Cuba, because of her highly productive virgin sugar lands and her propinquity to the United States and Europe, was the solution. In consequence, her crop was enlarged from about 2,900,000 tons in 1914 to nearly 4,500,000 tons in 1919, and increasing proportions of this sugar went to Europe and other world markets. Cuba had geared up her productive capacity to meet the demands of war-ridden Europe. Of course, this did not have adverse effects upon our domestic and insular producers.

These fabulously rich war years could not be permanent for Cuba. With the termination of the world conflict and the deflation in 1920 of the artificial economy that it had created, she found the price of sugar tumbling from over 20 cents in 1920 to under 2 cents in 1922. She held large stocks of unsalable sugar and her industry was geared to an artificial war demand. "The dance of the millions" ended.

After 1920, when the price of sugar collapsed, producers in all the American areas, as well as in Cuba, suffered heavy losses. As a consequence, the producers of beets pleaded for higher tariffs. Two increases in the sugar tariff in 1921 and 1922, however, still left a return of 3 cents per pound for Cuban producers and, carried on by the tide of improved business and prices which reached a post-war peak in 1923, prices rose to over 5 cents per pound and relative prosperity was again enjoyed by the Cubans.

The short-lived prosperity of Cuba from 1923 to 1926 was interpreted as meaning a return of the firm prices and

steady growth of the remunerative pre-war years. As a result, her output in 1925, over 5,741,000 tons, was about 1,500,000 tons in excess of the average three previous crop years. This increase did not come from the locally-owned plantations but largely from the properties which had been "taken over" by the large banking interests in New York City after the debacle of 1920. Via Wall Street, a large part of the Cuban sugar industry was sold to "investors" in the United States and sugar production passed largely from the old sugar firms and the Cuban *hacendados* into the hands of absentee bankers and lawyers. The resulting expansion of output is a monumental example of the dislocation that from time to time has taken place in the production of sugar under the stimulus of good prices and the promise of speculative profit.

At about the same time, 1923 to 1925, Europe increased her beet production by 2,000,000 tons and was rapidly regaining her pre-war level of production; the Philippine Islands had increased their output by about 300,000 tons; Java had expanded her crop by 500,000 tons; and Puerto Rico, Hawaii, and the beet area had enlarged their yearly contribution. These increases in Cuba, Europe, the Philippine Islands, and Java were ominous portents of the future.

The advance in insular production, largely that of Puerto Rico and the Philippine Islands, narrowed the American market for Cuba. The squeezing process continued until 1933 when Cuba sent 1,601,000 tons to the mainland, 2,390,000 less than in 1926. Likewise, in the ever-narrowing European market, Cuba found increasing difficulty in selling her sugar at a remunerative price. In consequence, President Machado decreed that restrictions of production, limitation of the period of the grinding season, and prohibition of new plantings upon reclaimed forest lands, be initiated in order that Cuba regain a production balanced

to the decreased demand of America and Europe. Cuba was acting single-handed to readjust her output in the hope that rising prices throughout the world would follow. But in the face of a growing nationalism throughout the world, increased production in Europe and Java, and a breakdown in the pre-war American sugar system under the stimulus of increasing production in the Philippine Islands and Puerto Rico, Cuba discovered her impotence to cure her own ills and government control was temporarily suspended in 1929.

In 1930 Cuba realized that her position, which had become increasingly imperilled since 1925, was further threatened by two events. One was the terrific and dramatic onslaught of the world business depression and the consequent collapse in all commodity values. The second was the passing of the Smoot-Hawley Tariff Act in June, 1930, which again raised the duty on Cuban sugar to the highest level since 1890, namely, 2 cents. Prices for Cuban sugar continued to drop to new low levels. Limitation of marketings was tried again. In November, 1930, the Cuban government established an export corporation to fix the sales to the United States and to Europe, and laid the foundation for the ambitious Chadbourne Control Plan which became operative for the crop of 1931. In this plan, Cuba had the support of the European beet countries and Java to restrict the exports to levels commensurate with world market demands. This plan, however, did not include the production of the United Kingdom, her colonies or dominions, and it did not encompass the sugar produced in the United States and her offshore areas. Furthermore, it was inaugurated at a time (1931) when the financial storm of the world depression was at its height. As a consequence, the price of sugar continued to fall throughout the world, excessive and burdensome stocks

continued to accumulate, and Cuba's financial, economic, and social conditions became worse.

In the summer of 1933 the Administration in Washington turned its attention to the desperate conditions prevailing in Cuba. An investigation revealed that she was producing the smallest crop since 1911 for which she would receive the ruinous price of about 0.82 cents per pound. Her exports of sugar to the United States were at the lowest level since 1908 and the value of all her exports to us had shrunk to that of 1903. The situation had brought actual starvation and political and social conditions which verged upon anarchy. After the expulsion of President Machado in August, 1933, there occurred a year of political disorder, unparalleled even for a country accustomed to political upheavals. It became increasingly evident that under the obligations assumed 30 years previously the United States must come to the assistance of Cuba. This could be done in one or both of two ways, either by military intervention or by bolstering her economic condition through changing our traditional sugar policy. The United States selected the second method. Aid was rendered through economic assistance rather than through force. The United States gave up the power of military intervention with the abrogation of the Platt Amendment in May, 1934.

THE NEW AMERICAN SUGAR POLICY

Any plan for the assistance of the Cuban industry could call for either an increase in the volume of sugar sold to the United States or a rise in its price. The Administration's plan called for both.

Between 1929 and 1933 Cuba had reduced her total volume of output from approximately 4,800,000 tons to 2,400,000 tons per annum. This reduction had represented

her attempt, in cooperation with the co-signers of the Chadbourne Plan, to rebalance her supplies to the demands of the European market and was also the reflection of a drop in her American market of, roughly, 2,000,000 tons. Under the Sugar Act, by political action, Cuba received a fixed marketing quota which assured her of nearly 300,000 tons more in the American market than she had obtained in open economic "competition" with the American insular areas under the old tariff system. This permitted her to increase her production in 1934 and 1935 by an approximately equal amount. In other words, the quota system had the effect of raising the marketings, and hence the production, of Cuban sugar from its extreme low of 1932–1933. In terms of the situation which had existed in the 1920's, however, Cuba's production at the new level remained low.

This increase in volume alone was not considered to afford sufficient relief to Cuba; and consequently our new policy provided for an increase in the price returns per ton upon sugar shipped to the United States. The bald facts are as follows: in 1932 Cuba had received from the United States a price of 82 cents per hundred pounds, and in 1935 she received $2.20 per hundred pounds.[12] This general price increase was brought about in two ways, both of which were at the instigation of the United States government.

First, the duty on Cuban sugar was reduced from 2 cents to 0.90 cents in two steps. The first reduction was made by presidential proclamation in June, 1934. Acting under the so-called flexible tariff, and after a comprehensive report by the Tariff Commission, the President approved a reduction from 2 cents to 1.50 cents. After this initial

[12] Prices quoted f.o.b. Cuba. Czarnikow-Rionda Company, Letter No. 18, May 1, 1936.

reduction the Cuban duty was further decreased from 1.50 cents to 0.90 cents as an outcome of the Reciprocity Trade Agreement of August, 1934.[13] (The full duty remained at 1.875 cents.) These reductions, it is to be noted, did not take place until after the Sugar Act was passed. By the terms of the Act, price protection to the beet and Louisiana cane producers was to be extended through contracts making benefit payments for the control of production. The criticism customarily levelled at a reduction in the Cuban duty was forestalled by the assurance that domestic producers would receive "fair exchange value" for their crops. This reduction in tariff on Cuban sugar, the first since the Administration of Woodrow Wilson, was made possible by the fact that *the tariff system as a mode of protection had been modified in favor of a quota and benefit contract system which offered direct protection of farmers' incomes.*

Secondly, in addition to the reduction in the duty, Cuba received a further enhancement in price from the operation of the quota system as such. The quota system has operated to make the American price, before payment of full duty, higher than that prevailing in the world's markets. Under the tariff system, the world price and the American price, before duty, would have been approximately equal; under the quota system, there is an artificial control of supply and, consequently, a price premium over the world price. In 1935 the quota premium was about 0.40 cents per pound, and by 1936 it reached over 0.70 cents per pound. Under the old tariff system, Cuba had not realized higher prices from her tariff preference; she had received the world price only. After the inauguration

[13] This Agreement was the first to be included under authority of the Trade Agreements Act signed by the President on June 12, 1934. For Agreement and Exchange of Notes see Executive Agreement Series, No. 67, U.S. Government Printing Office, Washington, D. C.

of the Sugar Act and the two reductions in duty, however, she not only received the world price, plus her enhanced tariff preference, but a premium as well, because of the quota system.

Thus, the increased value that Cuba has received on her crop since 1932 has come from the United States, not Europe. The price in London, reflecting the absence of any fundamental improvement in the world sugar situation, is still at its low level of the depression years. The enlarged volume of Cuban sales, likewise, has come from the United States alone. The following table shows the factors, volume and price, which operated between 1929 and 1935 to bring order out of chaos in Cuba.

VOLUME, PRICE, AND VALUE OF CUBAN SUGAR
(short tons, raw basis)

	Volume Exported *		*Price Received per pound*		
	To the United States	*To World Markets*	*From United States*	*From World Markets*	*Estimated Net Value*
1929	4,169,000	1,250,000	1.80¢	1.76¢	$191,326,000
1930	2,642,000	1,167,000	1.38	1.28	101,413,000
1931	2,320,000	727,000	1.22	1.14	72,347,000
1932	1,904,000	1,055,000	.82	.80	47,258,000
1933	1,586,000	1,149,000	1.11	.87	54,460,000
1934	1,769,000	1,012,000	1.35	.91	65,292,000
1935	1,768,000	1,057,000	2.20	.87	94,728,000
1936†	1,738,000	1,067,000	2.56	.88	107,764,000

* Original data in long tons (Spanish pounds) has been converted into short tons (English pounds). This data represents shipments from Cuba and need not be in exact harmony with data pertaining to quotas and incomes referred to elsewhere

† Estimated.

Source: Czarnikow-Rionda Company, Letter No. 18, May 1, 1936.

The striking points disclosed in this table are as follows:

(1) The total value of the Cuban sugar crop has more than doubled from its extreme depression year of 1932.

(2) This improvement in total value has been due almost entirely to the American sugar policy. The quota system has increased the quantity of Cuban sugar marketable in the mainland, when compared with the low point

in 1932, and has enabled Cuba to obtain an appreciably better price for her sugar.

(3) Cuba has received little aid from the markets of Europe. The world price remains at the depression levels and the amount of Cuban sugar sold to the world remains at approximately 1,000,000 tons.

(4) The rise from the depression levels of 1932 and 1933, although striking if expressed in percentages, leaves the value of Cuba's sugar at less than half the 1929 level and less than one-fourth of the inflated figures in the early 1920's.

THE FUTURE

Economic and social conditions in Cuba, although a vast improvement over those in the depression years, are unsatisfactory compared with those prevailing before 1926 when the sugar depression began to unfold. In fact, the "recovery" in the sugar industry, and hence in the economic condition of Cuba, represents merely a "stoppage" of the decline which had started in 1926 and reached catastrophic proportions in the years 1929 and 1933. This "recovery" has forestalled starvation and has raised the social morale of the island. Even the most optimistic advocates of the new American sugar policy toward Cuba, however, do not claim that the improvement to date has solved the difficulties under which Cuba struggles. First, they realize that neither the Sugar Act nor the Trade Agreement is permanent. If the quota system embodied in the Sugar Act should be repealed by Congress or invalidated by court decision, the duty of 1½ cents would revert on Cuban sugar and Cuba would again compete openly for her share in the American market. Her price would fall and her volume of sales would probably decrease. It was these uncertainties which no doubt led Ambassador Jefferson

Caffrey, in his address before the Social Union of Economic Forces of Cuba, to say that

> Heartening though this mutual improvement is, it should not be a cause of relaxation of effort on the part of those interested in closer economic relations. On the contrary, the present presents an opportunity, a breathing spell, which should be availed of to build for the future. There are many people who believe that the Costigan-Jones legislation and the trade agreement are of permanent duration. This is not the case.[14]

If one makes the reasonable assumptions that some form of quota system will be operative in the United States in the future, and that Cuba will continue to receive present favorable prices, the difficult question still remains: Can Cuba rebuild her economic and political life on a sugar crop of 2,800,000 tons with an annual value of about $100,000,000? Even with the substantial American price assistance, can Cuba recover in the face of the present restrictive measures being developed both in the United States and Europe? On this point the Ambassador was extremely cautious. He said:

> Cuba as a whole, however, would benefit little from this expansion in national income if it were concentrated in the hands of a few. Real economic recovery is predicated upon a wide distribution of purchasing power. The backbone of Cuban economy is agriculture. . . . Unless people such as these derive benefits in the form of increased wages, it would not appear that the welfare of Cuba as a whole would be improved. . . .[15]

The Ambassador might have added that if the benefits of our new policy toward Cuba were not widely distributed through normal economic processes or through action of

[14] February 19, 1935. The Ambassador's speech is reproduced in full in the pamphlet *Cooperation* published by the Social Union of Economic Forces of Cuba, Havana, Cuba.
[15] *Ibid.*

the government to the many thousands of workers in her basic agricultural industries, the United States would, notwithstanding the abrogation of the Platt Amendment, be called upon to exercise her power to quiet possible civil disorder. Such disorder is not unthinkable under present economic and political conditions.

Although the new sugar policy toward Cuba has been in effect two years, one of its chief objectives, i.e., the restoration of normal political conditions, has not been fully realized. Since the exile of Machado there have been four presidents in office, the last elected in January, 1936, after a repeated postponement of that election because of disputes among major political factions. The University of Cuba remains closed; the army has greater numerical strength than at any time in Cuba's history and its leader, Colonel Batista, is widely recognized as the first power in Cuba. With the crop of 1936 limited to near-depression levels, unemployment is rife. Cuba, like the soft coal area of the United States or the textile districts of England, remains an economic sore spot only partially healed by recovery, and that recovery, to use an overworked but pointed phrase, is "highly artificial" in that it has come from a new sugar policy of the United States rather than from an improvement in the world sugar situation. Cuba, crippled by nationalism in sugar throughout the world, has been taken under the protective wing of the United States.

There is one school of thought which contends that the improvement in the sugar industry arising from America's assistance will not be felt by the laboring masses unless the Cuban government distributes the gains so derived by increased taxation and correlative expenditures for "social reconstruction," based largely upon "land reform." The Commission of Cuban Affairs, appointed by the American Foreign Policy Association, after making an exhaustive

study of Cuban affairs in light of our new sugar policy (1934), reported that

> While admitting the contention that the sugar industry is in need of rehabilitation, we believe that it would be unfortunate if the government did not attempt to recapture a portion of the benefits of the reduced [United States] duty for general needs. The rehabilitation of the sugar industry will not solve the problems of the dead [non-sugar grinding] season nor many other acute social problems.[16]

The Commission favored the imposition of a progressive export tax of 1%, starting at prices above 1.75 cents New York, c. and f., with a surtax when the price advanced above 2 cents. It was contended that

> The plan as a whole would place much needed revenue in the hands of the government for a reconstruction program.[17]

In addition to this tax, the Commission recommended the enactment of legislation "requiring each sugar central to set aside land on which its workers may produce food. . . ," and a comprehensive land policy

> . . . under which the Cuban government would acquire land for the purpose of developing small holdings, making compensation in internal bonds or cash.[18]

But the Commission was not overly optimistic of the adoption of such a program for social reconstruction. The pessimistic tenor of its conclusions are expressed in these sentences:

> The program advanced in this report . . . is of a type which the Cuban government may successfully undertake, provided it

[16] *Problems of the New Cuba,* Report of the Commission of Cuban Affairs, Foreign Policy Association, New York, 1935, page 308.

[17] *Ibid.*

[18] The remaining nine recommendations made by the Commission called for increased taxation, which would amount to a redistribution of the benefits derived by the sugar industry from the new American system. *Ibid.*, pages 493–494.

has the will to carry out a program of social and economic reconstruction. Should the Cuban government fail to inaugurate a program of reconstruction, the recent change in the commercial policy of the United States may tend to resurrect the old economic and political system which the revolution attempted to overthrow. . . .[19]

In regard to possible political improvements, the Commission remarked that

The mounting difficulties of the government in maintaining order during the past year [1934] and in reorganizing the constitutional structure of the country, would indicate that the political problem is far from solved.[20]

In light of the administrative and political difficulties which have arisen in the United States and Puerto Rico in carrying out programs for "reconstruction" far less ambitious than that recommended by the Commission, one could not be called a skeptic for saying that a fundamental economic reconstruction of Cuba's life, even if adopted over the stubborn protest of the property classes, is highly improbable in a country which in the past has shown such limited talents for administration and the maintenance of political stability. As in the case of Puerto Rico, the obstacles to a radical departure from the prevailing plantation system are insurmountable unless there is a fundamental scrapping of "property rights" all along the line.

On the other hand, there are groups in both Cuba and America who believe that a scheme of economic reconstruction is neither necessary nor feasible. These proponents of laissez-faire argue that the valid method for improving conditions in Cuba is to enlarge her crop further and to allow the benefits from such increases to seep down, largely as wages, to the impoverished masses. With a quota limitation in the United States, Cuba cannot increase her market-

[19] *Ibid.*, page 493. [20] *Ibid.*, page 495.

ing in that area. Consequently, the suggestion for increased output means essentially that sales should be increased in the world market,[21] and this was recommended by one of her sugar experts. It was argued that the quota system and a substantial preferential in duty assure Cuba of a price in the American market higher than the world price and one in excess of costs plus a profit. Consequently, Cuba could sell part of her sugar in the world market at a loss and still obtain a remunerative price upon the total sales.

> The more the Cuban sugar manufacturer produces for the free [world] markets, the lower will be the average price which he will obtain for his sugar, since his American quota cannot be increased. If by producing a reasonable quantity in proportion to the effective demands of his market, he obtains a price which, averaged with that which he receives for his American quota, covers his cost of production and allows him a small profit, he would be acting rashly if he took the risk of producing more with the inevitable result that his final average price would fail to cover his production costs.[22]

It is obvious that such a plan to dump Cuban sugar in the world markets would run contrary to the present policy of foreign governments of protecting their beet and cane sugar producers. About one-third of the Cuban crop is exported to countries other than the United States, and the overwhelming portion of these exports goes to the London market for consumption in the United Kingdom. As has been seen, England has a rigid protective system for her beet producers, for her dominions, mainly Australia

[21] On the other hand, the Commission on Cuban Affairs recommended that Cuba enter "an international sugar agreement under which leading sugar importing countries would agree to adopt the quota system of the United States and under which the life of the Jones-Costigan Act and the Chadbourne Plan would be extended. The chief purpose of such agreement would be to increase the world price of sugar." *Ibid.*, p. 494.

[22] "Cuba's Policy in Sugar Production," Viriato Gutierrez, *Facts about Sugar,* October, 1935.

and South Africa, and for her colonies in the West Indies, Mauritius, and Fiji. These colonial producers in the British Empire do not look with favor upon the Cuban proposal to sell part of her crop in England at a price substantially below her costs and less than half of the price received in the United States. It is reported that Empire producers will recommend the application of a tax upon any sugar sold for less than 7s. per cwt. (approximately 1½ cents). The British colonists have criticized Cuba as follows:

> But no great progress towards a lasting improvement [for Empire sugar] can be made until the problem of dump sugar is dealt with. Cuba produces about 2,500,000 tons, sells two-thirds of it to the United States at £12 a ton under tariff protection and has been supplying our buyers here out of the remainder at about £4 10s. per ton. This has been one strong element in keeping down the price of our sugar.[23]

In light of the fact that Great Britain renewed her sugar beet subsidy in 1936, and in view of the position taken by producers throughout the Empire, it is questionable whether the ten-year old policy of protection for sugar will be reversed. Any substantial increase of the Cuban crop over 2,800,000 tons a year, therefore, would depend on a wholesale withdrawal of support of the beet industries by the governments of the world. The probability of such a withdrawal is extremely slight and Cuba will be forced to limp along with a restricted crop and her preferred price in the United States. Whether permanent economic recovery and political stability will follow is doubtful.

A SUMMARY

Looking broadly at the Cuban situation as it has developed since the turn of the century, the following should be noted:

[23] "Anti-Dumping Proposals in Britain," *Facts about Sugar,* January, 1936.

(1) The action taken by the United States government after the Spanish-American War brought Cuba under the political and economic wing of the United States just as it did the two American insular areas, Puerto Rico and the Philippines.

(2) At all times, however, because of the early granting of "freedom," Cuba's connection with the United States has been more tenuous, less direct, than that of the other islands.

(3) Before the War this connection took the form of a tariff preferential, not free trade. Politically we maintained internal peace, including the protection of the American dollar. As a result, Cuba enlarged her production, drove other foreign sugar from the American market, and became economically dependent upon a continuous flow of her sugar to the mainland.

(4) During the War Cuba was called upon by the American government to increase her production to meet a serious sugar shortage. Her war record was good. After the War, with Wall Street in Havana, an unprecedented increase in production took place with the hope that the war shortage would continue in peace time.

(5) With the rise of agricultural nationalism, Cuba's markets in Europe became progressively narrowed; her war capacity became overcapacity. As a consequence, the first attempt by any government to restrict the output of sugar took place in one of the lowest-cost areas in the world.

(6) Next, the United States narrowed her market for Cuban sugar by raising her tariff which, in turn, stimulated production in the beet area, in Puerto Rico, and in the Philippines. Our tariff policy, which had aided Cuban industry before the War, helped to destroy it in the depression after 1929.

(7) The Administration of 1933 realistically acknowl-

edged that our political fingers were in the Cuban pie. Aroused by murder and starvation 100 miles off the Florida Keys, the United States took direct steps to assist Cuba by aiding her major industry, sugar.

(8) It was possible to give this assistance, through quotas and tariff reduction, without jeopardizing the interests of the continental farmers or bringing great hardship to the insular producers. The end was achieved without an inordinate advance in the price of refined sugar, but it did cost the American taxpayer over $20,000,000 a year, for a lower duty on Cuban sugar meant lower Treasury receipts.

(9) America, like the rest of the world, has elected to have a publicly supported sugar system, not a free system. Under the tariff before the War, that system gave Cuba her place in the sun. After the War the tariff systems of both America and Europe plunged Cuba into economic darkness. The failure of the tariff called for a plan which would give some assistance to Cuba without harming our domestic and insular producers. The method was the use of the quota system and benefit payments. By this plan Cuba's income could be raised without reducing the incomes of our protected producers. Although the cost was high to the consumer and the Treasury, it was a national expense which must be charged to our policy of maintaining our sugar industry. If we extended a free trade in sugar to Cuba, without a tariff or a quota limitation, American owners of Cuban properties and the hacendados of that island would be made fabulously wealthy and the masses of the island would be given work, not idleness.

(10) Cuba deserved and received liberal consideration under our new sugar policy. In the future, debate will be heard in Washington as to how much the amount of that aid should be: How large a quota? How high a Cuban

tariff? How great a quota price premium? It is certain that there is no finality or permanence to the *particular* amount of the assistance hurriedly rendered in the hectic days in 1934 when the United States assumed its historical responsibility toward its strife-torn neighbor, Cuba.

CHAPTER XV

THE REFINERS

The refining industry always has been vitally affected by its manifold relations with the Federal government. It has paid varying rates of import duty on its raw material, raw cane sugar; it came under government control during the War; it enjoyed, until 1922, effective tariff protection upon its finished product, refined sugar; it has seen marketing quotas placed upon the importation of both raw and refined sugar; it has felt the imposition and the subsequent revocation of a processing tax; and it has seen the price of its commodity fluctuate as a result of administrative action under the quota system. Few industries have been more sensitive to the action of the Federal government.[1]

Before the War the industry grew steadily. Raw cane sugar from Cuba, Puerto Rico, and the Philippines was converted into refined sugar at seaboard points, Boston, New York, Philadelphia, Savannah, and New Orleans. The two refiners on San Francisco Bay performed a similar economic service with respect to sugar from Hawaii and a small volume from the Philippine Islands. About 80% of the nation's requirements for refined sugar was thus met and the remainder was satisfied by the rapidly-growing sugar beet industry.[2] As a result of an increase both in our

[1] The 199 bills relating to sugar, introduced in the United States Congress (1919–1935) and practically all affecting the refiners, are listed in the American Sugar Refining Company *Annual Report,* 1935, pages 23–26.

[2] A small amount of "plantation white sugar" came from the plantations of Louisiana.

national population and in consumption of sugar per capita, the refiners saw their volume of business enlarged at a satisfactory rate each year. With this assured yearly growth as a base the refining industry built itself into a "modern" business; ownership was consolidated, and large-scale advertising and research were undertaken. Like flour milling, it became a minor "key industry" producing an indispensable food product.

During this pre-war period our national sugar policy afforded tariff protection not only to raw sugar but also to refined. Labor and capital in the seaboard refining cities received the same public protection as did labor and capital in the continental beet and cane states and the three American insular areas. Of course, the tariff on refined sugar was higher than that on an equivalent amount of raw sugar, just as the tariff on cigars is greater than that on the tobacco necessary to make them, or the tariff on woolen cloth is greater than the tariff on the wool equivalent. Although the amount of the tariff on refined sugar varied from one period to another, the tariff "differential" between 96° (raw) sugar and 100° (refined) sugar was always sufficiently high to discourage the importation of foreign refined sugars. Sugar producers in Cuba, the refining industry's potential competitor, obtained a higher net return for raw sugars than for refined in the United States and as a result they concentrated upon the production of "raws." [3]

The policy of protecting refined sugar led to an economic situation in which the United States specialized in refining and Cuba devoted her energies to the task for which she was best fitted, the raising of sugar cane and its conversion into crude raw sugar. This "territorial division of

[3] It takes 107 pounds of raw sugar to make 100 pounds of refined. Consequently, the tariff on 100 pounds of refined sugar, in order to afford protection to the refiners, was in excess of the tariff on 107 pounds of raw sugar, and not merely in excess of 100 pounds alone.

labor" was largely the result of mutual economic advantage but the tariff acted to solidify it.

During the War, as was outlined in Chapter III, the refining industry, partly at the instigation of the Federal government, geared up its capacity to restock the depleted refined sugar supplies of our Allies. As a consequence, exports of refined sugar from the United States increased from approximately 22,000 tons in the pre-war year 1913 to about 738,000 tons in 1919.[4] About 18% of the total output of refiners was exported in that year. The gap in the European sugar supply had still not been bridged when peace was declared, and in 1922 exports reached a record height of 918,000 tons. These exports were sizeable enough to make the industry's future prosperity contingent in part upon their continuation.

The expansion of the refining industry, consisting almost entirely of fixed plant of a highly specialized character, went beyond the needs of the artificial war-time market. When the "abnormal" war export trade disappeared, and when the "normal" export trade of the early twenties was killed with the dumping of refined sugar in the world's market by the highly subsidized European industries, the domestic industry found itself facing an overextension of facilities. Its exact amount is impossible to measure, but the Supreme Court in the Sugar Institute case stated that there has been ". . . an overcapacity since the War of at least 50%."[5] For a few years, however, the loss of export demand and the existence of overcapacity were partially offset by the rapidly growing consumption in the American market which, in 1926, reached the all-time high of over 6,350,000 tons, refined basis.[6]

After 1925 a number of forces combined to curtail

[4] *Report to the President on Sugar,* 1934, page 97.
[5] *U.S.* v. *Sugar Institute,* 56 S. Ct. 629.
[6] *Report to the President on Sugar,* 1934, page 38.

output, the low point being reached just prior to the enactment of the Sugar Act. The following table gives at a glance the factors operating between 1925 and 1933 to bring about such a reduction.

REFINERS' LOSS OF PRODUCTION 1925–1933
(short tons, raw value)

Total Loss in Production (meltings)		1,548,000
Loss Accountable by		
Decrease in Export Demand	338,000	
Decrease in Domestic Demand	275,000	
Total	613,000	
Increased Importation in Offshore Refined Sugar (mostly Cuba)	702,000	
Increase in Beet Sugar Production	269,000	
Total	971,000	
Adjusting Balance	36,000	
Total Decrease in Demand, Increase in Supplies and Adjustment *		1,548,000

* Inasmuch as production of refined sugar and beet sugar is not synchronous with their distribution, an adjusting balance would always appear.

Source: Computed from data, American Sugar Refining Company, *Annual Report*, 1935, page iii.

During this period, when every producing group in the American sugar system, except Cuba, was enlarging its output as a result of the stimulus of the tariff, the production of the refining industry dropped about 28%. The factors bringing about this reduction were four: the increased imports of refined sugar from all islands, largely from Cuba but also from the American insular areas; the virtual disappearance of the export demand for refined sugar; the rise in the tariff-protected beet sugar output; and the steady decline in the consumption of all refined sugar due to the depression and in part to the "slimness craze" of the late 1920's. Of course, the curtailment of output was aggravated by the existence of excessive productive capacity. As a result, profits declined somewhat and the sugar refining industry was not "boomed" during the great stock market rise of 1928 and 1929.

This overcapacity resulted in a fight among the refiners for sales in a narrowing market, and that fight was carried on without benefit of the "rules of fair competition." In referring to the marketing condition which existed at this time, the Supreme Court stated:

> The industry was characterized by highly unfair and otherwise uneconomic competitive conditions, arbitrary, secret rebates and concessions were extensively granted by the majority of the companies in most of the important market areas. . . . The refiners were disturbed economically and morally over the then prevailing conditions. . . .[7]

As a consequence of these unsettling conditions, two major steps toward relief were taken by the refining industry itself, both of which led to immediate contact with the government. The first was an attempt to obtain protection from the growing importation of Cuban refined sugar, and the second was the establishment in 1927 of the Sugar Institute, a trade association whose activities were subsequently limited by court order as being in partial violation of the anti-trust laws.

Under the Tariff Act of 1922, Congress, in pursuing the traditional American sugar policy, had provided protection for the refining industry by affording a tariff differential between 96° sugar (raw) and 100° sugar (refined) in an amount approximating 2.37 cents per 100 pound bag.[8] If conditions had been normal in Cuba, that is, if a profitable price and expanding volume had prevailed for her *raw* sugar, this slight protection for domestic refined sugar might have discouraged her sale of the refined product in our market and Cuban producers thus would have received a maximum net revenue from the sale of raws. From 1925 to 1930, however, conditions in the Cuban industry were

[7] *U.S.* v. *Sugar Institute,* 56 S. Ct. 629.
[8] *Report to the President on Sugar,* 1934, page 9.

not "normal." Prices and volume declined drastically, and American and European markets for Cuban raw sugar narrowed continuously. As a consequence, some of the large American raw sugar mills in Cuba turned their attention to refining in order to offset their losses.[9] This Cuban refined sugar easily scaled the low hurdle of the tariff. Between 1925 and 1930, the year of the passage of the Smoot-Hawley Tariff, the imports of refined sugar from Cuba jumped from less than 5,000 tons to 272,000 tons (short tons, refined value), and formidable competition to domestic refiners appeared from the tropics.[10]

In the confusion and rush incident to the drafting of the specific rates of the Tariff Act of 1930, the traditional tariff protection for refined sugar was inadvertently omitted by Congress and a small differential of 2 cents per 100 pounds was afforded *in favor* of Cuban refined sugar. Under these conditions a Cuban producer, by turning 107 pounds of raw sugar into 100 pounds of refined sugar, would pay less duty than on the raw sugar itself.[11] Consequently, after 1930 there was an increasing importation of Cuban refined until by 1933 it reached the level of over 400,000 tons.

With this burst of Cuban imports, the domestic industry turned to the Tariff Commission[12] for an increase in the duty on refined sugar under the "flexible" tariff clause of the Act of 1930. The Commission, however, did not recommend to the President that the duty on refined sugar

[9] In addition, some of the established Cuban refineries, refining raw sugar for the local market, diverted a part of their refined sugar to the American market.

[10] *Report to the President on Sugar,* 1934, page 170.

[11] The duty upon 107 pounds of raw sugar at 2 cents a pound was $2.14 per 100 pound bag, whereas the duty upon 107 pounds of sugar, in the form of refined sugar, equal to 100 pounds of refined sugar, was $2.12 per 100-pound bag, giving a duty preferential to white sugar of 2 cents per 100-pound bag.

[12] Brief of domestic sugar industries, April 12, 1932, before U.S. Tariff Commission, Investigation No. 66.

be raised.[18] The industry might then have turned to Congress for an effective duty, but as Congress was embroiled in more serious national issues at that time (1933), the chances of obtaining any tariff action, favorable or otherwise, were slight. Consequently, the industry, seeking a partial restoration of our traditional protection policy, turned to the newly-established Agricultural Adjustment Administration and requested the setting up of a quota limitation on the importation of Cuban refined sugar.

Such a limitation was included in the proposed Stabilization Agreement of 1933. As has been seen in Chapter VI, this plan provided for the fixation of a minimum price for raw cane sugar by the major purchasers of that commodity in the United States, the refiners. In return, the agreement provided definite quotas for the marketing of Cuban sugar, not only raw but refined. In addition to this protection from Cuban competition, the refiners won a limitation on shipments of refined sugar from the three American insular areas. With the rejection of the Stabilization Agreement by the Secretary of Agriculture, the refining interests carried their plea for a limitation of all offshore refined sugar to Congress. In their testimony at the hearings on the Sugar Act before the Senate Committee on Finance[14] they reiterated their arguments for a direct limitation of refined sugar by a quota system as a substitute for the then prevailing "protectionless" tariff. They suggested a quota of 291,600 tons of refined sugar for Cuba, and their recommendation on the size of the quotas for the American insular areas was close to that found in the Stabilization Agreement. Congress, which had inadvertently (in the Tariff of 1930) stimulated the importation of refined sugar, now partially rectified its action through the

[18] *Report to the President on Sugar,* 1934, page 11.
[14] *Hearings before the Committee on Finance,* 1934, page 163.

Sugar Act. Import quotas were placed on both Cuban and insular refined sugars.

Congress, in setting up refined sugar quotas for the American insular areas, merely placed a limit on the further expansion of their shipments to the mainland, it being provided in Section 8(a) of the Sugar Act that the insular areas could not increase their shipments over the maximum shipments in any one of the three years, 1931, 1932, 1933. This principle was not applied to Cuba, as it was provided that the refined quota for that country should be not more than 22% of the total basic quota, 1,900,000 tons, or 418,385 tons (raw value) in 1934. This called for a reduction of about 77,000 tons of refined exports from Cuba, roughly 16% under the level of 1932. Such a reduction was not sizeable enough to harm the business interests of the Cuban raw sugar mills which operated refining plants as an adjunct of their main business, the manufacture of "raws." Of course, the quotas on refined had no adverse effects upon the general economy of the island. On the contrary, Cuba, as has been seen in Chapter XIV, had received liberal assistance from the enlarged volume and higher price for raw sugar under our new sugar policy. And the island's income from sugar, her major crop, had more than doubled as a result of the new American policy. The table on the next page summarizes the major facts relating to the refined sugar quotas.

There does not appear to have been any logical basis for setting the refined quota for Cuba at the present *particular* amount of 418,385 tons, or 22% of her raw quota. There is no evidence pointing to how this particular amount was arrived at; it appears to be a compromise between the quota suggested in the Stabilization Agreement and the actual imports of 1933. Once the principle of limitation upon imports of refined sugar was adopted by Congress, it

REFINED SUGAR QUOTAS
(short tons, raw value)

	Stabilization Agreement		*Established (1934) by Secretary of Agriculture Pursuant to the Sugar Act ‡*	
	*As Initially Proposed**	*As Finally Adopted †*		*Basis of Quota*
Territory of Hawaii	30,000	30,000	26,023	Equal to maximum year, 1932
Puerto Rico	100,000	100,000	133,119	Equal to maximum year, 1933
Philippine Islands	56,000	56,000	79,661	Equal to maximum year, 1933
Cuba	110,000	250,000	418,385	22% of raw sugar quota
Total	296,000	436,000	657,188	

* A.A.A. press release, July 24, 1933.
† Stabilization Agreement.
‡ General Sugar Quota Regulation, U.S. Department of Agriculture, Series No. 1, June, 1934, page 4.

was inevitable that the equity of the present amount of limitation would be open to question. The American Sugar Refining Company, in its *Annual Report* of 1935, has suggested a policy of expanding the domestic refining industry through a modification of the present quota on Cuban refined sugar:

Does the government still rely on the home refiners, and their experience, as the mainstay of the national sugar supply? If the answer is "yes," then there should be no delay in modifying the Sugar Plan so as to return the home market to the home refiners.[15]

It is reasonable to expect that the questions: How much public protection should be given the domestic refiners? and What form should that protection take? will be debated in the future. To date, no clear-cut decision has been made; only a temporary compromise has been reached. Two points are clear, however: (1) The operation of the Sugar Act, which has brought higher prices to all American

[15] Page 12.

producers and processors, direct Federal bounties to continental and insular agricultural producers, and enlarged volume of marketing and higher prices to Cuba, has brought a minimum of financial benefits to the domestic refining industry. The latter has received no direct payments from the government, nor has the higher price for *raw* sugar given it indirect financial assistance. (2) If the United States in the future is to adopt a policy for sugar under which all elements of the industry, including Cuba, receive adequate public protection, that policy will provide, no doubt, that the domestic market be preserved for our domestic refining industry. Such a provision would not only be in harmony with our traditional sugar policy but in keeping with the policies of every other important industrial country.

CHAPTER XVI

THE CONSUMER

The millions of housewives buying sugar at the corner store are unaware that they help to maintain a widespread American sugar system existing in the United States, the insular areas, and Cuba. It is quite certain, also, that the food industry, large industrial consumer of bulk sugars, has no understanding of the role it plays in protecting our national sugar industry. The fact remains, however, that sugar consumers of the United States give the industry an assistance—in the form of an enhancement of the domestic over the world price—of nearly 2 cents a pound, or approximately $2 per person each year, making a national contribution of over $250,000,000.

The word "approximately" is used because no exact calculation can be made of the consumer's yearly contribution. The obvious reason for this is that it is impossible to determine what the "free" price of sugar would be in the United States if *all* tariff and quota support were withdrawn. It is certain that such a withdrawal would bring about a new alignment of supply and demand, and hence a new but indeterminate price. It is likely that Cuba and other foreign countries would expand their exports to the United States; the Territory of Hawaii, Puerto Rico, and the Philippines would continue to supply sugar, but in reduced volume; the beet sugar supply would be reduced drastically; Florida's growth would be stopped; and Lou-

isiana's production would be snuffed out. On the other hand, the consumption of sugar would rise with lower prices. The resulting "free" price would probably not be far from 1½ cents per pound of raw sugar, or roughly 2 cents lower than the protected price now prevailing. Assuming an error as large as 20% in the above estimate as to what the price would be without any protection, the yearly contribution would remain at the mountainous figure of $200,000,000 per year. An understanding of the way in which the protection is and has been afforded by the consumer, and of the avenues through which it flows to the various segments in the industry, is necessary for a comprehension of our contemporary sugar system and its probable future form. As in the case of most tariff-protected commodities and commodities upon which indirect taxes are paid, such as liquor and tobacco, the sugar bounty is paid by the consumer without his "knowing it."

There have been three sets of circumstances under which this sugar contribution has been made, two of which were in existence before the Sugar Act of 1934. Before 1900 the tariff on sugar existed primarily as a source of Federal revenue; between that year and 1934 it became largely a measure for protection; under the quota system protection has become all important.

It has been pointed out in Chapter III that in the latter part of the nineteenth century (1883–1890) a duty of 2.24 cents a pound was placed upon all raw sugar imported into the United States. This meant that the domestic price of raw sugar rose by about $45 a ton. This increase was reflected in the price of refined sugar; with the then current level of consumption the total gross contribution by consumers was about $67,500,000 yearly. Inasmuch as *dutiable* sugar made up over 80% of the total consumption, the Treasury obtained an income of around $54,000,000 a

year from the sugar duty. The planters of Louisiana and Hawaii gained the remainder of the consumer contribution, about $13,500,000 a year, in the form of higher prices. In other words, the price of all raw sugar, foreign and domestic, was raised by the amount of the duty, and as most sugar was dutiable, the higher price paid by consumers brought a large revenue to the Treasury. Thus, the tariff on raw sugar, passed on to the public in the form of higher prices for refined sugar, was tantamount to a sales tax imposed upon the consumer regardless of ability to pay, as is true of the lucrative excise taxes on tobacco and liquor.[1] However the consumer's burden, higher prices, was largely offset by a Treasury receipt.

After the turn of the century the deliveries of protected (non-dutiable) sugar from Hawaii, Puerto Rico, and the Philippines increased rapidly as did those of the protected beet area. In addition, Cuba was given a preference of 0.34 cents per pound under the terms of the Treaty of 1903. The net effect of these factors was that whereas in the earlier period (1883–1890) over 80% of the consumer's contribution had gone into the Treasury, by 1909 the Treasury received only 45%.[2] With the spread of protectionism, the Treasury received a diminishing share of the consumer's payments.[3]

[1] In the period 1882–1886, consumption ran to 1,439,435 tons, refined basis; and imports, including non-dutiable Hawaiian sugar, to 1,220,546 tons, or 84.79%. These figures are taken from Willets and Gray as given in *The Tariff on Sugar,* Lippert S. Ellis, The Rawleigh Foundation, Freeport, Illinois, 1933, page 45.

[2] For the fiscal year 1909–1910, Professor Taussig, in drafting a balance sheet labeled by him as "United States Government in Account with Sugar Consumers," calculated that of the $110,400,000 net paid in the form of higher sugar prices, only $50,900,000 went into the United States Treasury and $59,500,000 went to the producers in the protected areas. Of the amount that went to the protection of producers, $5,200,000 is listed as going to the Cubans due to their preferential. *Some Aspects of the Tariff Question,* F. W. Taussig, page 98.

[3] The absolute amount of the duty collected by the Treasury, however, due to the increase in sugar consumption and importation, remained at around $50,000,000 per year.

The situation in 1916 was not substantially different from that in 1909–1910 except that by this time full-duty sugar had been forced from the American market. Cuba was selling her sugar in the American market, not at the world price plus the full duty, but at the world price plus the Cuban duty. In the language of the trade, Cuba "gave her preference away." The account for the year 1916,[4] as stated by Professor Taussig, indicates a protection bill paid by American consumers amounting to approximately $82,000,000, of which $38,000,000, or 46%, became a Treasury receipt. With each increase in the amount of sugar shipped into the American market from the duty-free insular areas and the domestic beet and cane areas, the percentage of the consumer's contribution going into the Treasury declined further.

By 1932, with the highest duty on raw sugar in our history, and with Cuba supplying less than 25% of the American requirements, the percentage of the Treasury receipts from the sugar duty to the price enhancement paid by consumers fell to what was then the lowest level in our history, less than 30%.[5] A duty once levied for revenue had

[4] In 1916 the duty was slightly lower than in 1909–1910; consumption was also lessened. F. W. Taussig, *op. cit.,* page 99.

[5] The following table shows the receipts of the U.S. Treasury from import duties on sugar from 1925 through 1935:

	(in millions)
1925	$124
1926	140
1927	124
1928	113
1929	124
1930	112
1931	94
1932	71
1933	63
1934	37
1935 (estimated)	35
1936 "	36

Source: *Hearings before the Committee on Finance,* 74th Congress, Second Session, U. S. Senate on H.R. 12395, Washington, D. C., 1936, pages 7 and 8.

become largely a duty for protection but, as has been seen, this "protection" did not safeguard the interests of American producers. On the contrary, it served, in conjunction with the world depression in sugar and overproduction in the insular areas, to bring the lowest price on record to domestic producers and distress to Cuba.

THE CONSUMER'S PAYMENT UNDER THE SUGAR ACT

Under the Sugar Act the consumer, of course, was still to afford protection to the industry. As under the tariff system, he paid higher prices for refined sugar than would be necessary if raw sugar could be purchased by refiners at the world price. The elements making up the higher prices of raw sugar were substantially changed, however. This is shown in the table below which presents the factors making up the raw price, before (1932) and after (1936) the Sugar Act went into effect.

PRICES OF RAW SUGAR
(cents per pound)

	1932		*1936* *
World Price, Raw (N.Y. basis)	0.87	World Price, Raw	1.04
Cuban Duty, Raw	2.00	Full Duty, Raw	1.87
Premium of Cuban Price over World Price	0.05	Premium, Quota System, Raw	0.71
Total Duty-Paid Price	2.92	Total Duty-Paid Price	3.62

* First six months.
Source: A.A.A., Sugar Section.

In analyzing this table, it is to be recalled that between 1932 and 1936 the world price of sugar has remained practically unchanged, and the duty on Cuban sugar has been reduced from 2 cents to 0.90 cents per pound. The question arises, therefore: Why does the refiner, the purchaser of raw sugar, pay 0.70 cents per pound more when the all-important Cuban duty has been decreased and the world price remains substantially unchanged? The answer is

twofold: (1) the Cuban duty is no longer all-important in setting the premium of domestic prices over world prices, and (2) the world price is no longer the base upon which the domestic duty is added.

(1) In 1934, when the duty on sugar from foreign countries was reduced from 2.5 cents to 1.87 cents, the duty on Cuban sugar was reduced from 2 cents to 0.90 cents, and the price of sugar in the American market tended to become, for a short time, the world price plus the full, rather than the Cuban, duty.[6] The price condition, somewhat oversimplified, is illustrated by the computation below:

World Price	1.00¢
Plus Full Duty	1.87
Equals American Price	2.87¢

For the first time in 20 years Cuba was given the opportunity to take advantage of her "preferential" and she took it. Because of the existence of the quota system the reduction in the Cuban tariff did not have the effect of reducing the duty-paid price in the United States and the world price plus the full duty was operative. Of course, the two reductions in the Cuban duty lowered the Treasury receipts, and they fell from $71,000,000 in 1932 to $35,000,000 in 1935. Under our new sugar policy, sugar as a source of Federal revenue has become of limited importance, and the percentage of duty revenue to consumer's contribution has fallen to the lowest figure in our history, not far from 15%.

(2) Shortly after the Sugar Act went into effect it became apparent that the price of raw sugar was to be composed not only of the world price plus the *full* duty,

[6] The price did not become, as it had under the tariff system, the world price (1.00¢) plus the Cuban duty (0.90¢) or 1.90¢.

but of the world price plus the full duty plus a quota price premium for sugar. As the sugar surpluses became steadily reduced through benefit contract programs and the quota system was shown to be administratively feasible,[7] buyers and sellers of sugar became more convinced that the American market could be divorced from the world market. The price of sugar in the United States before duty was no longer fixed by world supply and demand, but by the American supply and demand. The American supply (deliveries), in turn, was to be set by the Secretary of Agriculture at an amount equal to the estimated consumption. When it became apparent to the sugar trade that the supply of sugar to be permitted by the quota system was "conservative," the price of raw sugar rose from approximately 2.87 cents at the time of the passage of the Act to about 3.62 cents in the first half of 1936. A quota premium of about 0.75 cents was added to the tariff contribution previously paid by American consumers. *From the point of view of the consumer, the quota system has raised the "tariff" on raw sugar.* Of course, none of the "increase in the tariff" is reflected in higher Treasury receipts; all of these benefits go to the producing areas, including Cuba.

Under the old tariff system, the price of sugar had been "artificially" raised by the amount of the duty; under the quota system the amount of the duty became of secondary importance and the world price became of little concern to domestic producers. The present "artificiality" of the price lies in the fact that an administrative officer determines how much sugar shall enter the United States market. Under neither the tariff nor the quota system is the price a result of the interplay of supply and demand in a "free" market. In both cases there is interjection of government action. But the quota method of control places the major

[7] See Chapters VIII and IX.

responsibility upon an administrative officer, the Secretary of Agriculture, rather than upon Congress to decide the amount of the consumer's contribution for the protection of the industry.

That the Secretary has this power to raise raw sugar prices, and hence refined, does not mean that he has used it unwisely. The consumer has not been unduly burdened under the quota system. The following table gives, for significant years, the price paid by the housewife:

RETAIL PRICE OF SUGAR IN SIGNIFICANT YEARS
(cents per pound)

1913—Pre-War	5.4
1920—Post-War Period Sugar Shortage	19.4
1923—Post-War Sugar Boom	10.1
1929—Extreme Prosperity	6.5
1932—Depression Low	5.1
1936 *—Recovery Year	5.6

* First six months.
Source: U.S. Department of Labor, Bureau of Labor Statistics.

At the present time the retail price is approximately the same as in the pre-war years and is more than 40% under the high price of 1923; it has risen but 10% from the extreme low levels of 1932 as contrasted with an advance of 20% in the prices of all foods. Certainly, the retail price is reasonable in terms of historical experience or in terms of other food prices. The cheapness of sugar, however, should not blind the nation to the fact that it is making a contribution of approximately $200,000,000 toward its maintenance.

PLAN FOR MINIMIZING THE CONSUMER'S CONTRIBUTION

How can the expense of sugar protection be kept at a minimum without jeopardizing the interests of the continental beet and cane producers, the planters of Hawaii, Puerto Rico, and the Philippines, and those in "our other colony," Cuba? In answer to this question it is necessary

to review the effects of the invalidation of the A.A.A. by the decision of the Supreme Court. That decision outlawed the processing tax of one-half cent on sugar and prohibited the use of production adjustment contracts by which direct bounties to domestic producers were made. As a consequence, the plan of the Sugar Act to raise the income of domestic sugar cane and beet producers by direct payments was scrapped. This left the alternative of raising the price of sugar by the still legally valid quota system alone in order to protect the interests of the domestic agricultural producers. Such an indirect method of protection is the more expensive inasmuch as price protection is received equally by all areas whether low cost (Philippine) or high cost (Louisiana). The price of sugar to consumers must be kept high enough to protect the high-cost domestic producers, giving the offshore areas a very lucrative income. The invalidation of the direct bounty system, under which payments in varying amounts can be made to producers roughly in accordance with their needs, will add to, not reduce, the burden upon the consuming public.[8] The consumer is still called upon to protect the industry, but that protection has become more expensive inasmuch as it must take the form of price protection to all areas, including Cuba, instead of a direct bounty to protect incomes of domestic producers. In this respect, our present sugar protection is unique contrasted with that of other countries where direct agricultural bounties are made to producers, under conditions prescribed by the central governments.

These developments arising from the Supreme Court decision probably lie behind one of the administrative legislative programs placed before Congress in the spring of 1936. That program called for the reimposition of the

[8] "In accordance with needs" does not necessarily mean "fair exchange value."

invalidated sugar processing tax of half a cent per pound which was estimated to yield approximately $67,000,000 per year.[9] From this fund a maximum of about $24,000,000 could be paid in the form of limited direct bounties to beet and cane producers in the United States, the Territory of Hawaii, and Puerto Rico.[10] The remainder of the receipts would be available to the Treasury for the general expenses of the government. At the same time, it was believed the price of sugar to the consumer might be lowered through liberalizing the supply of sugar under the quota system. By this dual method of lowering the price of sugar and paying a direct bounty, the consumer could be aided, the domestic farmers' interests could be guarded, and much needed national revenue could be raised. Of course, the returns to producers in Cuba and the Philippines, not recipients of a direct bounty, would be substantially reduced. But the payments of such direct bounties were to be based upon the continuation of the quota system,[11] which indirectly limits production and hence the amount of the agricultural bounty. Congress in 1936 did not see fit to place processing taxes upon any agricultural commodity, including sugar, and the plan for a tax and direct payments to producers was dropped. Price enhancement through the quota system and payments under the Soil Conservation Act remain the sources of sugar protection along with the tariff.

[9] The suggested processing tax on sugar was to be definitely set by Congress and not by the Secretary as under the A.A.A.

[10] Letter to Senator Pat Harrison from the Secretary of Agriculture regarding a tax on sugar, May 7, 1936. *Hearings before the Committee on Finance,* U.S. Senate, Revenue Act 1936, page 6.

[11] These bounties were to be conditioned upon a limitation of production and fair treatment to labor, including the outlawing of child labor, but such conditioning was not to be done through a contract. The President of the United States recommended that any payments to sugar producers be graded in order that rates for large operating units would be "lower than those applicable to family-sized farms." *Hearing before a Subcommittee of the Committee on Finance,* U.S. Senate, June 2, 1936, p. 6.

THE FUTURE

In the future little public debate will be heard over whether or not the sugar industry shall continue to be maintained. The important issues will be as to (a) how much and in what form the assistance should be, and (b) how that assistance is to be divided among the various segments of the industry. When future arguments on sugar are heard, the following points should be taken into consideration.

(1) Congress, regardless of political party, appears to agree that under present world conditions some form of quota control should exist in the future. Such quota control, of course, divides the annual national market among the various producing areas and then freezes that division. Consequently, and to that extent, each producing area is assured of the opportunity to gain a *minimum volume* of sales. This type of public assistance is not received by other business groups. For example, the government has not fixed the amount of cotton cloth that may be sold from New England as against that from the South nor has it fixed the volume of petroleum which may be sold in competition with coal.

(2) In addition, the raw cane and beet industry realizes that the price of sugar under our tariff and quota system is highly unlikely to drop to unprofitable levels. It appears that the price can be held at over 3 cents per pound. To this extent, all beet and cane producers and processors are assured of a minimum price. Such minimum price protection, although not specifically underwritten by law, is a positive protection not received by ordinary business and agricultural interests.

(3) Under the Soil Conservation Act, domestic producers of cane and beets have been assured of a government bounty on their production. In addition to indirect mini-

mum price protection, therefore, a limited direct assistance is now given to domestic farmers.

(4) Some groups of continental beet and cane farmers are still striving to obtain a "fair exchange value" for their farm products. This price objective, as has been pointed out in Chapter X, was placed in the original A.A.A. to give equitable prices for farm products generally, and later the formula was embodied in the Sugar Act. It is an open question as to whether this *particular* price objective is necessary to assure domestic producers of beets and cane an income which is fair to them and to the consumer.

(5) If "fair exchange value" is maintained as the objective for domestic beet and cane producers, without provision for a direct agricultural bounty to regain that level, farmers will urge the Secretary to raise the price of sugar through the quota system to a point high enough to accomplish the same end. A higher price under the quota system, just as under the tariff system, would give equal benefits to all producers—high cost and low cost, domestic and insular. This equalitarian protection if over 4 cents a pound for raw sugar—an amount to insure approximately "fair exchange value"—would give excessive profits to the plantations of Hawaii, Puerto Rico, and the Philippines; with her present low duty it would bring a liberal income to Cuba. Furthermore, the large producer-processors of Louisiana and Florida would obtain a generous public subsidy.

In any event, and regardless of the type of legislation that is passed in the future, it should be recognized that the consumers of the United States foster, support, and make possible the sugar-producing industry as it now exists. Both major political parties agree that the industry should be protected. The method of protection has been drastically changed; instead of prices raised behind a tariff wall

by Congress, prices are raised behind a quota wall by the Secretary. Either way, the consumer pays the bill. The questions of how much protection should be given to each area and how that protection should be implemented were not debated or analyzed carefully in the chaotic days of 1933 and 1934. Now the emergency has passed, times are quieter, and the industry is prosperous. A permanent decision will be sought. In all probability the consumer will be unaware of the form of the final decision. Due to the nature of the commodity and the hidden character of his contribution, if the protection is excessive he will remain unaware of it. It is certainly clear that if excessive protection is given, a reduction will be difficult in the welter of practical politics.

CHAPTER XVII

A BRIEF REVIEW

In looking back over the development of sugar, one is struck by the complex, intimate, and important tie which has always existed between it and the Federal government. There are few industries so far-flung and, at the same time, so closely conditioned by the receipt of public aid. The amount and form of that aid has varied with shifts in national policy on the tariff, domestic agriculture, and foreign trade. In addition, the emergencies resulting from the World War, the rise of agricultural nationalism here and abroad, pronouncements from the Supreme Court, and a vacillating "colonial policy" have further complicated the sugar situation. It is not surprising, therefore, that the problem seems formidable to anyone who seeks to disentangle it. With due regard to its complexities and frankly recognizing the possibility of misdirected emphasis or oversimplification, the following restatement is set down.

Sugar became a political-economic issue long before 1933. The seeds of our contemporary sugar system were planted in the period between the Civil War and the World War when the government, through the tariff, was continuously pointing out the general direction which the sugar industry was to take. But this direction was not the fruit of a coherent and consistent plan. Public policy toward sugar shifted from time to time; at best it was piecemeal and careless. At no time was adequate consider-

ation given to the probable long-range results which would be likely to follow from any specific legislative policy.

In the nineteenth century the industry was an important source of Federal revenue; the tariff duty amounted to a sales tax, with incidental protection being given to Louisiana. A minor exception, then unnoticed but now of tremendous importance, was that of Hawaii. Having received free entry into the American market, her economic life became inextricably bound to the mainland and a complete divorce later on was unlikely. In 1890 the policy of taxing the sugar industry for revenue was dramatically overturned by the repeal of the sugar duty and the inauguration of a system of direct subsidies to the planters of Louisiana and the beet producers of the newly-established western industry. This bounty gave direct and unconditional Federal aid to the domestic industry, and sugar, which had been a source of revenue, became a burden on the Treasury. Of greater significance, free sugar, a corollary of the bounty, boosted the Cuban interests and crushed the Hawaiians; Congress stimulated the industry in one area and discouraged it in another.

Direct bounties and free sugar were to be short-lived; tariff protectionism was reestablished in 1894 but not under the old rules. Within the next 10 years the American version of the "white man's burden" extended the range of American sugar protection over a quarter of the globe covering Hawaii, Puerto Rico, the Philippine Islands, and Cuba. The resulting stimulus to sugar production slowly drove all "foreign" sugars from the American market. After 1913 our market was reserved for our domestic interests, our three insular areas, and our economic "colony," Cuba, and references after that year to our sugar trade as being "international" were formal, not real.

Before the World War, this tariff policy of the United

States was highly successful in protecting our domestic, insular, and Cuban interests. In those happy years there were stable international markets including one for sugar. A remunerative world price afforded a firm foundation for the tariff duty, and the total domestic price was high enough to provide snug economic shelter for our industry. At the same time we offered a remunerative price and an ever-enlarging market to Cuba. But this political action diverted the "natural" flow of economic development. It built and expanded the rapidly growing beet area into a powerful protected interest. It stimulated production in the Territory of Hawaii, Puerto Rico, the Philippines, and Cuba to a point where they became highly specialized, one-crop islands increasingly dependent upon continued American support. Foreign sugar was driven from our shores. And finally, our tariff policy reserved the American market to the seaboard refiners.

The peaceful days of the sugar industry were rudely shattered by the War. The damaging effects of that sorry conflict are still with us in sugar, as in wheat. Cuban production doubled, the domestic refining industry extended its capacity to meet war needs, and the price of the commodity rose under world shortage. Every effort was made by the United States government to accelerate sugar production in all areas to fill the gap in our national demand. Patriotic exhortation for geared-up production, price fixing, and ration cards made clear and dramatic the national importance of this commodity. The War killed once and for all the old debate on whether sugar should be protected, and free trade in sugar, as planned for by President Wilson, was given a military burial. From then on the question was not whether, but how much, the industry should be protected, and what form that protection should take.

In Europe, the World War crippled the production of

beet sugar. A peace-time revival of the European industry was certain to renew and intensify the conflict which had always existed between high-cost beet sugar and low-cost tropical cane sugar. With general European recovery, between 1920 and 1925, the beet industry regained its normal output and it was inevitable that the overexpansion of tropical cane, arising in part from the speculative American development of Cuban production, would flood the world with excess sugar.

The disequilibrium in the world production arising from the War was tremendously aggravated after 1925 by the world-wide rise of an extreme agrarian nationalism. This universal political tendency reached its pinnacle in the sugar industry. Even Great Britain, the classical exponent of free trade, inaugurated a costly bounty system for her beet sugar which, under strong government support, grew by leaps and bounds. The League of Nations in 1929, surveying the world situation with alarm, predicted that the inevitable consequence of excessive nationalism in sugar would be disastrous world sugar prices which, in turn, would necessitate more and more government assistance and control. Its prophecy proved to be correct. Each leap in the production of the protected beet industry narrowed the market for cane sugar exported from one-crop countries, and with the advent of the depression of 1929, bringing world financial disruption in its path, the price of sugar dropped drastically. A tottering world economic structure intensified the international disequilibrium in sugar and a whirl of deflation depressed its price to the lowest level, in the jargon of the trade, "since the Crusades."

During this period a new factor appeared to aggravate the difficulties of this world-wide industry. Technical changes took place rapidly in the production and processing of sugar cane. In the Philippine Islands, Java, and other

tropical islands, the introduction of new cane varieties and the modernization of industrial processes brought a reduction in costs and an expansion of output which unbalanced the sugar equation from the industrial side just as war and economic nationalism had unbalanced it from the political side. In short, the world sugar industry, which before 1914 had experienced 20 years of relative stability, found itself in circumstances under which ever and ever greater deflation and depression occurred. *And the world sugar depression, having its roots in events arising long before 1929, is still with us.*

American sugar producers could not escape the effects of the low world price although its full force was deflected by the highest tariff in our history. In Puerto Rico lower prices were largely offset by an increase in production. The total sugar income, however, was not large enough to support the heavy load of unemployment which had appeared in this overcrowded island. Economic conditions in the Philippine Islands, due to the tremendous reduction in costs and a rise in production, were not as unfavorable as in the other areas. As in the case of Puerto Rico, the Philippines could increase output to offset partially a reduction in price. Likewise, producers of beet sugar softened the effects of low prices by enlarged output. Louisiana, struck by the ravages of plant disease, could not enlarge her output and suffered near bankruptcy. In 1933 all the American interests, continental as well as insular, looked into the future with apprehension. They recognized that a tariff system could operate successfully only so long as the world supply and demand were in reasonable balance. With a world crisis in sugar, that tariff system was impotent to protect the interests of farmers, laborers, and processors, as it had in the calmer days before the War. It was at last recognized that our tariff system could not be a "pro-

tective" system as long as the world depression in sugar continued.

The area suffering most from the impact of world dislocation was Cuba, the only "American" area selling in the world market. Cuba saw a collapse in her price, i.e., in the world price. In addition she suffered from political restrictions, bringing a narrowing of her European market, and from a drastic decline in her American sales. Although she made a valiant attempt through the Chadbourne Agreement to rectify overproduction for the world markets, she failed in face of the violence of the world depression and the lack of support from the United States and the British Empire. Cuba experienced deeper and deeper inroads into the purchasing power of her major crop. Economic difficulties bred political instability and by 1933 her social condition was as unstable and unsatisfactory as it had been under the oppressive rule of Spain. The commitments made by the United States in the days of the Spanish-American War were being nullified and American policy, which had been reasonably successful before 1914, was apparently a failure by 1933.

Business as well as government recommended in 1933 a new form of assistance for sugar. In seeking a modification of the tariff system, the sugar industry, in the proposed Stabilization Agreement with the Secretary of Agriculture, advocated a quota system. In doing so, it accepted the theory previously advanced by the Tariff Commission which had struggled ineffectively to administer aid to the industry through the inflexible "flexible tariff." The industry and the Commission realized simultaneously that no form of tariff protection, least of all one based upon the so-called "differences in costs" between Cuban and American producers, could give adequate protection as long as that tariff system stimulated production

beyond market needs, lowering sugar prices below costs and continually narrowing the market for Cuban sugar. When the industry advocated its Stabilization Agreement wherein the marketings of sugar were to be controlled by quotas, it was proposing an economy for sugar governed partly by industrial cooperation rather than one governed wholly by competition. The shift from laissez faire under a tariff system to a purposeful equating of supply to demand through "business-government" cooperation called for a voluntary delegation of broad powers to an administrative officer, the Secretary of Agriculture. Industry, in part, was to surrender by contract its "right to run its own affairs." The government, however, was reluctant to accept the responsibility of enforcing the plan inasmuch as the instrument of that enforcement, the Federal licensing power, was too tenuous a thread to bind together a discordant industry.

The Sugar Act, as outlined by the President to Congress in 1934, included the quota plan previously advocated by business and various agencies of the government, among which were the Tariff Commission and the Department of Agriculture, and in addition it embodied the theory underlying the invalidated A.A.A. of production control coupled with direct bounties to producers. Congress gave legal sanction to this plan which was the work of many minds, all of which were convinced that the tariff system of assistance could not work in a vastly changed sugar world. Little objection was raised by the industry to the broad delegation of powers to the Secretary under the Sugar Act. It challenged neither the power to estimate yearly consumption nor the power to divide the marketing allotments among the various processors. Those powers were placed in the hands of an administrative official knowingly and with the consent of the majority of the industry. Congress sanc-

tioned an Act, developed by the industry and drafted by an administrative agency, with a limited knowledge of its specific provisions or broader implications. The hectic days of 1934 and the complexity of the sugar problem made that inevitable.

The limitation of marketings to estimated consumption, the heart of the Sugar Act, gave the Secretary of Agriculture unprecedented powers over the industry. In the estimate of yearly consumption, the establishment of quotas, and the division of the quotas into allotments to the various producers in an area, the economic activities of thousands of producers and many processors were affected. Liberal assistance from a cooperative industry, relatively few avenues of production and distribution, and a large measure of decentralization made it possible to administer an ambitious scheme for industrial-agricultural stabilization without undue "interference" with business. The quota system worked; yearly supplies to the domestic market were limited, and the domestic price rose from the depressed levels prevailing in the world market plus the new and lowered duty.

The Sugar Act, like the Stabilization Agreement, provided that government, with industry, should make agricultural production consonant with the marketings of sugar permitted to the various areas. It was evident to both business and government, before the Act was signed, that a mere restriction of marketing would have little effect upon price as long as the national market was overburdened with the surpluses of the Philippine Islands and Puerto Rico. Consequently, Federal production adjustment contracts became the means by which the overextended production in those areas was harmonized with the quota provisions of the Act. This readjustment in production, which took the form of destruction of cane in the Philip-

pine Islands and the use of cane for by-products in Puerto Rico, was made imperative by the "artificial" overexpansion of those areas resulting from a previous government "plan," the tariff system. Cumulative bad "planning" by government under the tariff was the direct cause of the national emergency in sugar in 1933. This emergency demanded a readjustment of total production, on the one hand, and a redivision of the benefits among the various areas, on the other. Expenditures from the Federal Treasury were made to soften the blow of previous Federal mistakes.

Under the Sugar Act it was possible to make direct payments to producers. In the Philippines and Puerto Rico these payments were not so much bounties as compensation for the reduction in production made necessary by the quota system. In the continental United States the payments were largely direct bounties. The advantage of paying such subsidies lay in the fact that government protection could be extended in varying degrees in accordance with the varying needs of the areas. If the industry were to be protected, direct bounties to high-cost domestic areas in accordance with their needs would be a less expensive subsidy than raising the price of sugar to levels necessary to cover the high-cost areas.

The amount of the bounty paid to continental producers under the Sugar Act was that which, when added to the farm price of beets and cane, would assure a "fair exchange value" for the farm commodities. This price objective, the so-called parity price, was taken from the theory underlying the Agricultural Adjustment Act. The necessity for this specific standard of public assistance is questionable, especially when it is used in calculating the payments to corporate producer-processors in Florida and Louisiana, and to large-scale producers of sugar beets. In

sugar cane, particularly, production and processing costs have declined with technological and agricultural improvements in the industry. Experience suggests that the payment of full "fair exchange value" to large-scale producers of the industry will bring an excessive amount of public assistance.

With the invalidation of the Agricultural Adjustment Act (January, 1936) the Supreme Court declared that the government lacks the constitutional authority to enter into production adjustment contracts with agricultural producers. This decision came after the emergency in the American and Cuban sugar markets had passed. Excessive supplies of sugar and cane had been reduced by agricultural readjustment; current marketings of sugar had been made consonant with current consumption through the quota system and, as a result, the price of sugar had risen moderately. With higher prices to all areas, direct bounties to some, and a reduced duty for Cuba, the sugar industry made profits, not losses.

But, as a consequence of the Supreme Court's decision, the direct protection of farm income through contract was outlawed and the indirect protection of "valorized" sugar prices, arising through the still legally valid quota system, remained. *In other words, the invalidation of direct benefit payments put the assistance to the sugar industry back upon an equalitarian basis as it had been under the tariff.* Equal price protection was given to all areas with the exception, of course, of Cuba who was to pay a lowered tariff. Thus primary attention was directed to the raising of the price of sugar through the quota system inasmuch as it remained the major method wherein farmers' incomes could be protected. In short, the decision of the Supreme Court did not outlaw the quota plan; it merely prohibited limitation of production coupled with direct payments to producers.

A more deep-seated implication of the Court's decision was that the Federal government was forbidden to condition by Federal contract the granting of Federal aid. For example, the public could give income protection to the beet farmer, but that public could not forbid the farmer to exploit child labor nor could it call for a limitation of his production. Again, the public could sustain beet processors with a tariff and quota system, but the price the processors paid to the farmer for his crop was to be outside public surveillance. Our form of government makes it easy to assist the industry, both producers and processors, but difficult if not impossible to condition that assistance either by contract or regulation.

That the temper of the Supreme Court decisions on the New Deal throws some doubt upon the legality of the quota system, no one would dispute. That system, the essence of which is a limitation of the marketing of sugar in interstate and foreign commerce, is based upon constitutional powers different from those used in the imposition of processing taxes and the control of agricultural production. Until the Supreme Court has finally passed upon the power of the Federal government to limit the quantum of a commodity shipped in interstate and foreign commerce in an effort to enhance its price, there will be reasonable doubt on the validity of any quota system.

This doubt was largely responsible for the presentation in Congress of various sugar measures in the spring of 1936. All the bills proposed were unanimous on one point, namely, that *the tariff system under present conditions of a depressed world price is not to be the method of assistance for the sugar industry.* All were in agreement that a quota system should be employed to balance supply to demand in order to arrive at a protected price for producers. One group, led by Senator Vandenberg, has urged a quota sys-

tem with *no* restriction of marketings or production for American continental producers. Another group, led by Democratic spokesmen, has recommended a quota system similar to that now in force, which calls, of course, for a limitation of marketings of the domestic industry. Now the differences of policy regarding domestic quotas may be of little importance to beet farmers or processors inasmuch as they have not shown the ability to fill their present marketing quota. Of more importance is the fact that there is fundamental agreement by both parties upon the central issue that quotas and not tariffs are the solution to the sugar problem. All urge that the Secretary of Agriculture shall estimate the consumption of sugar for the United States, then parcel out that consumption estimate among the various areas and, finally, divide the quotas for each area among the various producers. All agree that free competition in sugar under a tariff should be abandoned in favor of a rationalization of marketing to an estimated consumption.

The two proposed bills differed on the matter of payments. The Costigan Bill, based on the theory of the original Sugar Act, called for direct payments to producers *conditioned* upon the observance by those producers of control of production, the payment of equitable wages to labor, and the prohibition of child labor in the production of the commodity. The Vandenberg measure, on the other hand, did not provide for direct payments but would rely upon the Secretary of Agriculture to fix the supply of sugar at such an amount as would bring a remunerative price to the producers through an enhancement in the price of raw sugar. This difference may be one largely of form rather than of content. Agricultural producers, unless they are called upon to restrict their production considerably, show no particular preference for one plan over another; both

call for protection. From the consumer's point of view, although paradoxical, it would probably be less burdensome to have direct payments made to producers. Such payments could be varied among the areas with the largest amounts paid to the "family farmer" in the continental beet and cane area. On the other hand, if the consumer's contribution to the protected sugar industry takes the form of higher prices alone, he will be paying what is tantamount to a tax upon all sugar he consumes, and the low-cost producers of Cuba and our insular areas will benefit handsomely.

In 1936 Congress postponed the drafting of a long-range program for sugar. However, it repealed the already invalidated processing tax and benefit payment features of the Sugar Act, extending its quota and allotment features through 1936 and 1937. In doing so, it set definitely the quotas and allotments in amounts previously established by the Secretary. This strengthened the legality of the quotas and allotments by making them the result of Congressional action rather than the result of administrative decision under a broad formula.

In 1937 and thereafter Congress will again debate the sugar issue. The future of the Philippines and Cuba—both of which have achieved greater freedom from the United States in the last two years—will be discussed. The political as well as the economic future of a restive Puerto Rico will be debated. Louisiana planters will appeal to Congress to remove their marketing limitations and to restore, at the same time, "fair exchange value" for their crop. The beet farmers likewise will fight, probably, for the direct price protection which prevailed under the defunct A.A.A. Florida, alone, will ask merely for a free hand to compete with the insular areas, and Hawaii will probably concur in any solution of the sugar problem under which

she receives equal treatment with the continental producers. The refiners will point out to Congress that under the quota system they pay 25% more for their raw material, crude sugar, that they receive no protection under the tariff duties as now established, and that the domestic demand for their product is reduced by the importation of over 400,000 tons of refined sugar. Cuba will plead that the liberal benefits received under the new policy be continued in the future.

All factions in the far-flung sugar industry—laborers, farmers, planters, processors, and refiners—will agree that protection should be given, but disagreement will be rife as to how much that protection shall be and how it shall be divided among the various groups in the industry. Consumers, widely scattered, uninformed, and inarticulate, will remain the least vocal of all the interests involved. Congress and the executive branch of the government—accepting the traditional policy of the national maintenance of the industry—will have the difficult task of sifting the claims of the various interests into an equitable plan. Such a plan should not be inconsistent with the consumers' interests and should not produce unsatisfactory economic results that may have to be rectified in the future by expensive political action.

CHAPTER XVIII

SOME WIDER PROBLEMS

A careful study of the long and complicated case of sugar makes it clear that the relations of this industry to government are not those normally existing between industries generally and the Federal power. That sugar is a special case is not to be denied. At the same time it must be conceded that our national experience with sugar is broad enough to give the student a rich field to draw upon in developing his views relative to the larger problem of business and government. Of course, generalizations drawn from the narrow data of sugar must be discounted heavily, but even after liberal discount they remain provocative.

(1) In the first place, the rigid dualism of the roles played by government and business, so frequently referred to, appears to break down completely. Government, through bounties, tariffs, war control, and quota regulation, has always been a force operating with private enterprise to give direction to development of this industry. The sugar industry grew, not in spite of government action, but with its assistance; business did not fear government, but appealed to it. This intimate relation of government and business was not born in 1929 or 1933 but existed long before the War. In fact, the relation did not start at any specific date but evolved gradually with the growth of the various sugar areas. In Louisiana it began before the Civil War; in Hawaii in 1876; in the beet industry about

1890; in the Philippines, Cuba, and Puerto Rico in 1898. Looking beyond the sugar problem, we also can see that in the banking, liquor, oil, railroad, meat packing, wheat, munitions, ocean, air and truck transportation, silver and gold industries, the powerful hand of government—taxing, aiding, and regulating—was felt long before the crisis of the thirties. All were touched, although not all to the same degree, all at the same time, or all in the same manner. The future, regardless of political party, is not likely to see the relation of government to these industries revert to a golden age of "unfettered private enterprise." In fact, it is doubtful if that age ever existed.

(2) Contemporary discussion emphasizes that economic progress has been achieved exclusively by business leadership working entirely under free enterprise. Of course this is partly true, but there are important exceptions. Certainly, in the case of sugar, economic "planning" by government was accomplished by our tariff system. In this commodity, a tariff has molded the face of the industry; a sugar system was developed under government direction. The blue-prints of the economic planner were not used; government did not dictate positively that certain men were to produce certain amounts of sugar for certain expected needs. But the fact remains that the tariff made it possible for certain men to do these things. An industry was established and then supported, the flow of capital was directed, and labor and land were put to specific uses because the tariff made those uses profitable. How many industries in the United States today have been established and maintained as the result of political action through a tariff? The list is a long one. And it grows each day because tariff rates are set now largely by reciprocity treaties; these treaties often provide quotas and quotas bring more, not less, direct government assistance.

(3) The result of giving support to the sugar industry through the tariff was that the various areas and economic groups within that industry came to rely upon an effective continuation of that assistance. With the disruption of the world sugar industry due to war, the rise of agrarian nationalism, and the technological revolution in sugar production, the old method of public assistance failed. The outstanding manifestation of this failure was the crushing of Cuba and the excessive stimulation of production in the other areas in the American sugar system. A secondary manifestation was the artificial competition brought upon the seaboard refiners by the Federal stimulation of the beet sugar industry. It was necessary to modify the old form of public assistance, the tariff, in order that the sugar areas would share more equitably the aid which was so vital to the continuation of their economic life. In short, the question arose as to how to assist some economic group in the industry without harming others. This question has appeared in other fields where government has aided business. For example, is it possible to aid truck transportation through highway expenditures without hurting the railroads; is it possible to aid the corn farmer by paying him to divert his "unused acres" to grass without injuring the dairy producers; is it possible to aid the small debtors of the country by Federal loans without harming the mortgage loan business; is it possible to restrict farm production without reducing the income of labor and capital in the processing of agricultural commodities?

It is apparent that every year we see more assistance demanded from the Federal government by more economic groups. The experience in sugar suggests that once any type of Federal assistance is given—whether through tariffs, bounties, loans, quota regulations, price fixing, or regulation of the business practices of competitors—such

assistance is difficult to withdraw, not only because Federal aid over a period of time gives an economic group political power, but because continued aid molds the shape of such economic groups so that it cannot be easily changed. Furthermore, sugar suggests that any particular form of assistance is likely to become obsolete and ineffectual under the rapidly changing conditions of our dynamic economic life. And finally, the careless extention of Federal assistance to one group is likely to bring harm to another.

(4) In order to redistribute the benefits of government assistance more equitably and to guard all interests against the world depression in sugar, it was necessary to use a new form of government aid, the quota system. The quota system called for a rigid regulation of business; supplies were to be adjusted to market requirements not through "free" competition but through "regulated" competition. But who was to do the regulating, government officials or business leaders? Assuming that business should have taken the lead, where were its leaders in the sugar industry? We have seen that this industry is a series of economic activities highly sectional and shot through with varying purposes and objectives. Peons, planters, beet farmers, processors, importers, and refiners, scattered from Cuba to the Philippine Islands, make up the picture. For 50 years it has sought government aid but it has never presented a united front on the terms of that aid. In the light of the complicated facts surrounding the industry, this is to be expected, not condemned. But it suggests a larger question. Are there any major industries in the United States with a leadership strong enough to carry out an industrial program, should that program meet the approval of the government as being in harmony with the interests of both labor and the consumer. The answer, one surmises, is yes and no. Perhaps in the automobile in-

dustry, yes; in textiles, no; in the steel industry, yes; in sugar, no. However, it is far from clear that the policies of "industrial leadership" as now exercised could be fitted into a reasonable pattern of public policy without close government supervision.

(5) When the inchoate sugar industry was faced with an international depression and an impotent tariff, it turned to the government for aid, not to be rendered by the taxing (tariff) power, but through government's power to regulate the flow of interstate and foreign commerce. High prices, always an aid to business and agricultural groups, were to be obtained by a limitation of marketing. Of course, the division of the yearly market for sugar among the various areas and their processors necessitated a direct limitation of the freedom of contract and enterprise. But business made little objection to these restrictions upon the "rights" of property. One can hazard a guess that if the quota system for sugar is attacked in court, the attack will probably emanate from Louisiana and Florida, not because those areas have a more acute sense of constitutional morality than is found in Colorado, but because the limitation of the quota system binds their future growth; in Colorado, it does not.

It appears that the revolt against government regulation comes primarily when that regulation diminishes the prospects of profit, not when it improves them. If Federal regulation promises to guarantee property against loss, it is likely to be thought desirable by the beneficiaries. The cases are numerous. A large percentage of the members of the coal industry were willing to submit to the restrictive terms of the late Bituminous Coal Control Act because they thought that it was in their financial interests to do so. Again, in the recently enacted anti-chain store legislation one group of business men advocated that more regulative

powers be given to the Federal Trade Commission in order that some of the activity of their competitors be restricted.

(6) Doubts have been expressed of government's ability, through direct regulation, to bring about a rebalancing of a depressed industry when "free enterprise" or "industrial cooperation" has failed to accomplish it. But is it necessarily true that government cannot administer effectively a plan for the rehabilitation of an industry? Generally speaking, yes, but here again general statements are of little assistance. Through codes, the central government could not restore profits in the cleaning and pressing business, in the restaurant trade, or in the distribution of groceries. In potato control it was defeated from the start. But the sugar industry, as well as other basic businesses, is not in this category. It is a highly centralized economic pursuit. Its areas of production are localized and its channels of marketing are few. Its consumption fluctuates in a narrow band. Consequently, a plan for the rationalization of sugar (including a limitation of marketing to an estimated consumption and a restriction of production) did not present insurmountable administrative tasks. The rebalancing of the sugar industry through the quota system worked, and it worked through government's acting in conjunction with a leaderless but cooperative industry. Our common knowledge and the experience in sugar indicates that there are inherent administrative limitations present in any plan for government rationalization of industry, but the exact extent of those limitations can only be determined in individual industrial situations.

(7) Business opinion favors a shrinkage of Federal bureaucracy. But, can Federal aid be given to industry and agriculture without multiplying the powers of the Federal government? In sugar, aid under the tariff system was simple in form and required no elaborate administrative

machinery. With a failure of that method of assistance, a new method was adopted. The tariff raised price by a duty; the quotas raise price by a control of marketing and production. The goal was the same—aid to agriculture and industry. This new form of aid, however, called for unprecedented regulation of business and for an enlargement of the number and powers of Federal administrative officials. Going beyond sugar, can the advocates of the anti-chain-store law expect to find the Federal Trade Commission shrink in size with this new administrative burden? Can cotton-textile manufacturers, asking for export bounties or import quotas, expect such public support to be unaccompanied by a growing bureaucracy?

(8) Congress is often accused of springing legislative surprises on an unwarned business world. Men of affairs are relieved when the halls of Congress are closed and no further legislation can be "hastily" concocted to upset their confidence. Experience has shown that there are grounds for this attitude, but it is hardly true that Congress operates in a vacuum. In sugar, certainly, Congress did not enact hastily a measure to regulate business. On the contrary, the record shows that it merely endorsed a program, adopted by business and agriculture, which had its roots in long experience and necessity. A superficial examination of the development of the defunct Coal Control Act or the Agricultural Adjustment Act will disclose that these measures were in no sense surprises to business. Economic groups may not obtain all that they wish from Washington, but the legislative mill grinds out little that is entirely new to them.

(9) It is commonly stated that there is a lack of a trained administrative force in Washington capable of carrying out public policy regarding complicated economic problems. Trained men in public life are needed, it is

said, as competent as those in business and the professions. There is great truth in this. However, the evidence indicates that the government in the depression was successful in extending large amounts of financial aid to business and agriculture on very short notice, without encountering insuperable obstacles of administration or personnel. Enormous loans were made to finance industry under the Reconstruction Finance Corporation; millions were paid to farmers for adjustment of production; agricultural surpluses were bought and distributed to the needy. In sugar, assistance through Federal regulation successfully revitalized the industry.

The issue raised by such regulation of industry for the enhancement of prices and profits, whether in sugar, coal, milk, or oil, is not the inability of the government to administer aid effectively, but the fact that such assistance can be so easily given. The vital question is not whether "industrial rationalization" is possible but whether it is desirable. Assistance can be given; the unanswered question is how much and to whom. This question is not apt to receive objective consideration by the assisted groups because they receive the benefits. It should be raised by the taxpayer and consumer; they pay the bill. What is imperative is not so much the creation of a trained administrative staff, but the setting up of appropriate government machinery in the Federal sphere to evaluate the claims for assistance that are constantly advanced by agricultural, business, and labor groups.

None of the questions raised above are to be interpreted as suggesting that there should be more "government interference with business." No brief is held for the proposals that government should plan for industry, in whole or in part. No argument is advanced for the enlargement of

Federal bureaucracy. Quite on the contrary, the public interest, in many instances, is likely to be served by a withdrawal of government intervention. But if there is to be a withdrawal, it will only be brought about when the conditions in the industry, contemporary and historical, make such a withdrawal possible. In sugar, assistance is not likely to be withdrawn because the producing areas, which have geared their output under our national aid, would be irreparably harmed. Furthermore, the tariff alone can no longer be employed as a method of assistance because under world depression in sugar it favors some producers at the expense of others. As long as this depression in sugar exists, the more restrictive and bureaucratic quota system apparently will be the method of aid.

At the present time we do not live in an absolutely "free" economy, and certainly the gossip of a planned economy is less frequently heard since the hysteria of 1932 and 1933. We do live in an economy of terrific complexity in which, in thousands of fields, the activities of government are mingled with the activities of commerce, manufacturing, finance, and agriculture. One thing is apparent to all except the extremists; the co-mingling of politics and business is the inevitable outcome of economic and social changes which have taken place over a long period of years. These changes pose the problem of readjusting the intricate relation of government to private enterprise which, at best, is a difficult task calling for careful study and thoughtful determination of the direction of public policy in detail. Careless declamation does not help at all. And political pandering to favored interests only makes the situation worse. The new tests of economic statesmanship will call for a resistance to inflated claims and for a constructive guidance of economic relationships in the national interest.

APPENDIX

INCOME OF THE SEVERAL SUGAR AREAS IN THE UNITED STATES SUGAR SYSTEM

1925–1936

(MILLIONS OF DOLLARS)

Period	*Continental Refiners*	*Continental Beet Area*	*Louisiana*	*Florida*	*Hawaii*	*Puerto Rico*	*Philippine Islands*	*Cuba*	*Total*
1925	68	105	11		65	56	54	260	618
1926	78	95	4		60	46	36	264	585
1927	56	92	6		73	57	58	274	616
1928	76	116	10		74	62	56	206	599
1929	74	86	14		60	39	54	202	531
1930	73	90	12	1	58	56	53	105	447
1931	60	96	10	2	59	47	51	77	402
1932	51	86	13	1	50	50	53	50	355
1933	57	94	13	2	57	46	67	54	390
1934	62	126	19	3	55	73	83	66	489
1935	52	108	24	3	62	44	53	94	441
1936	61	108	24	4	64	62	63	132	518
Average of 9 years Before Sugar Act (1925–33)	66	96	10	1.5	62	51	54	166	505
Average of 3 Years After Sugar Act (1934–36)	58	114	22	3.3	60	60	66	97	482
Percent Change	−13	+20	+120	+120.0	−3	+18	+24	−42	−4

From United States Cane Sugar Refiners' Ass'n, with preliminary estimates as of December 1936. Total income for each area (except continental refiners) is output of sugar times price received; for the continental beet area, output is measured by deliveries of sugar. Benefit payments under the defunct A.A.A. and soil conservation payments under the Soil Conservation Act of 1936 have been added to the area incomes. For the continental refiners who perform the distinct function of making direct consumption sugar from raws, a separate measure of income is calculated by multiplying the annual deliveries by the estimated refining "margin."